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NATIONAL SEALIFT POLICY

HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

EXAMINE MILITARY SEALIFT REQUIREMENTS, THE NATIONAL SEALIFT POLICY, AND OTHER RELATED ISSUES

JULY 13, 1989

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NATIONAL SEALIFT POLICY

THURSDAY, JULY 13, 1989

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON, MERCHANT MARINE
Washington, DC.

The subcommittee met at 9:50 a.m. in room SR-253, Russell Senate Office Building, Hon. John B. Breaux (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: John Graykowski, staff counsel; Bob Eisenbud and Earl Comstock, minority professional staff members.

OPENING STATEMENT BY SENATOR BREAUX

Senator BREAUX. The subcommittee will please come to order. Let me first apologize to our witnesses, and especially our colleague from the House. I was testifying at another committee that got started late because of another reason, and I was held prisoner and captive.

I have a statement that the Senator from Hawaii, Senator Inouye, would like to have included in the record.

[The statement follows:]

OPENING STATEMENT BY SENATOR INOUYE

I wish to congratulate my distinguished Chairman for scheduling this hearing on a matter which is essential to our national security. It is our private, commercial merchant fleet which must serve as the "Fourth Arm of Defense," as President Eisenhower called it, providing logistical support to our air, land and naval forces overseas. In March of 1980, the then Commander of the Military Sealift Command summarized the degree of national reliance on merchant shipping for defense purposes. Admiral Kenner said:

"The United States Navy does not have and will never have organic sealift assets sufficient to meet the demands of more than the very first phases of any emergency. The cost in dollars and manpower for DOD to provide that capability would simply be too great. We rely on the United States merchant marine for emergency sealift services and sealift assets, both in peacetime and wartime.

"The extent of our reliance on the private sector is indicated by the fact that more than 95 percent of military dry cargo moves in privately-owned ships, and more than 86 percent of the petroleum products move in privately-owned ships."

In that same year, Admiral Isaac C. Kidd, a formal naval commander of Atlantic forces publicly called attention to another aspect of the situation: American dependence on imports of strategic materials. Admiral Kidd said:

"Military industry could not produce at anything close to the 1941-45 levels unless shipping is available to bring these materials to the United States in protected convoys.

"Oil is the major concern. But the Navy says industry will also need cobalt, titanium, manganese, chromium, beryllium, tin, nickel, industrial diamonds, rubber, bauxite, antimony and asbestos.

"Cobalt, used in jet engines, is an important import and comes mainly from Zaire, which has 65 percent of the non-Communist world's reserves. The Soviet Union and Cuba are other producers.

"The Soviet Union and South Africa provide 60 percent of the world's manganese, which is essential to steel production. Australia exports some, but its potential is limited. Brazil and Gabon are other non-Communist exporters.

"Chromiun, used in stainless steel and ball bearings, comes from South Africa, Rhodesia and the Soviet Union.

"Titanium, which is as strong as steel but 45 percent lighter, became scarce last year when the Soviet Union, the largest supplier, stopped signing new export contracts."

Today, the U.S. merchant fleet ranks 11 in the world in number of ships and the USSR ranks 2; in terms of deadweight tonnage we rank 8 and the USSR 6.

Even more onerous, our merchant marine carries a mere 4 percent of our oceangoing trade; there are no commercial oceangoing ships under construction or on order in the United States; and the numbers of our merchant seamen have dwindled 60 percent since 1970 to a current level of 28,000 and are projected to decline further to 12,000 actively sailing by the turn of the century.

Last October General Carl Vuono, the Army's Chief of Staff, said his major concern in the event of a conventional war, the Army's biggest area of vulnerability, "is strategic lift capability". And, according to the Armed Forces Journal, "regional commanders-in-chief cite fast sealift forces as their biggest long-term need".

I believe it is fair to say that the expert views of General Vuono and the area commanders-in-chief are a fairly representative assessment of our sealift needs and shortcomings.

Nevertheless, this morning the Assistant Secretary of the Navy will tell the Subcommittee that our sealift program is "in reasonably good health; there is currently no fast sealift new construction program; and beyond the Ready Reserve Force, there is no ship procurement program to improve further our sealift posture."

Obviously, the agencies of government are divided on this most vital element of our national security.

This division is, in my view, symptomatic of the federal government's long standing refusal to realize the seriousness of maritime issues and to act accordingly. As a first step in revitalizing our commercial fleet I believe we must ensure that the government's extensive involvement in maritime matters is coordinated, efficient and rational.

A second threshold problem we must deal with in my view is the meager 4 percent of our foreign waterborne trade carried by U.S. flags. As our laws are now written, our merchant marine lives or dies on the amount of cargo it can attract in the extremely competitive market of international shipping. We should address the problem immediately and do whatever is necessary to correct this gross imbalance.

I believe S. 631 which my distinguished Chairman introduced last March, and which I co-sponsored, recognizes these problems, and suggests a way for beginning to resolve them. The bill requires all U.S. mail to move on U.S. vessels; and creates a cabinet level maritime council in effort to rationalize the government's maritime programs.

Senator BREAUX. I am pleased to have the very distinguished Charlie Bennett.

STATEMENT OF HON. CHARLES E. BENNETT, U.S. REPRESENTATIVE FROM FLORIDA

Mr. BENNETT. Thank you very much, Mr. Chairman. I thank you for allowing me to come before your subcommittee at such short notice, and your calling this hearing on this important issue. We must move quickly and comprehensively on the overall issue of maritime strength. Toward that end, the House Merchant Marine and Fisheries Committee Chairman, Walter Jones, Congresswoman Bentley and I, have introduced H.R. 2463, the Merchant Marine and Defense Act of 1989. Which is based on the fourth report by the Commission on Merchant Marine and Defense.

In 1984, Congressman Jones, Congresswoman Bentley and I, and others, had the idea of getting together a commission to study the

problems of the maritime industrial base. The chairman of this committee was active in that.

That commission, the Commission on Merchant Marine and Defense was enacted and ably went about its business of studying the maritime industrial base of our country with an eye on the military aspects of sealift of commodities during time of war.

The Commission came out with four reports. In the first report, the Commission concluded that there is a "clear and growing danger to the Nation's security in the deteriorating condition of America's maritime industries."

The Commission Chairman, Jeremiah Denton, a former senator, said in his January 29 letter accompanying the fourth report, and I quote him:

> Both our strategic sealift capability and our shipyard mobilization base today fall significantly short of defense requirements. And we feel that without decisive action, the situation will worsen substantially by the year 2000.

I thank the Commission for its work. My goal, and that of the others, is to follow the Commission's intent, that we consider its recommendations in a package instead of piecemeal, as some have suggested being done. This is a package. Everyone will not agree to all parts of it, but it is a compromise worked out among the various commissioners after months of hearings and studies. It includes ODS reform, a new procure and charter program simplification, procedures for long-term military leases, a new vessel prototype design and construction program, tax incentives for modernization of U.S. shipyards, and many other important initiatives.

We all remember when the Social Security system was in deep trouble. We established a commission. Some controversial parts were in the final legislative package, but everyone got on board to save Social Security. I hope everyone will get on board in this bill to revive our dying maritime industrial base, so important to our national defense.

The Joint Chiefs of Staff, Chairman Crowe, recently told Congress that our most pressing problem now is the lack of adequate sealift capability. The Commission supplied the know-how and momentum to do something about this. It is up to us to have the political will to carry it out. While we work on short-term improvements in the area of fast sealift, we should not lose sight of the total final goal, which is to include the revitalization of our ailing maritime industry, once number one in the world, now no better than 15th.

Thank you very much, Mr. Chairman.

Senator BREAUX. Congressman, thank you very much. You have been a real voice of experience and very articulate in this overall issue, as far as the House is concerned. We are delighted to have you share your thoughts with us here.

We appreciate it.

Mr. BENNETT. Thank you very much.

Senator BREAUX. Thank you, Charlie.

Now I want to welcome our first witnesses, and ask them if they would take their place at the witness chair. And we would like to welcome in that capacity General Duane Cassidy. If you would come up here. We are delighted to have you.

Let us go ahead and bring, at the same time, the Honorable Bill Creelman, who is Deputy Administrator of MarAd; and the honorable Everett Pyatt, Assistant Secretary of the Navy.

General Cassidy, we are delighted to have you here. We would like you to go ahead and give your statement first.

STATEMENT OF GEN. DUANE H. CASSIDY, COMMANDER IN CHIEF, U.S. TRANSPORTATION COMMAND

General CASSIDY. Thank you, Mr. Chairman. It is my privilege to be here in front of this subcommittee. It is my first time testifying before you and your subcommittee. And I, quite frankly, have been preparing for this since we set up the U.S. Transportation Command, recognizing that you and the other members of this subcommittee and I certainly have the same goal in life. And that is, to strengthen our Merchant Marine.

My role, indeed now, with the new U.S. Transportation Command, is to be the single four-star advocate for all three modes of defense transportation. We have made great strides in nearly all of our modes of transportation. For example, airlift, is becoming stronger each day. I have developed a keen interest and deep concern for the current state, however, of the U.S. Merchant Marine; and that is what I will give my remarks to today.

I come to you, quite frankly in the uniform that I am in as a Johnny-come-lately to this business compared to yourself and to Senator Stevens, who have been concerned with these issues for years, and to my colleagues to my right and left who have been a part of this business for a long time; Mr. Pyatt, with the Navy Department for many years; and Mr. Creelman, who spent his life in this business. And then those others that will testify behind me, and particularly Mr. Mike Sacco, who went to sea when he was 16 years old. Compared to those gentlemen, indeed I am a Johnny-come-lately.

Nonetheless, I can recognize problems when I see them. With my 36 years in the United States Air Force, I recognize crises when I see them, and we have a problem and a crisis in front of us.

A healthy U.S.-flagged Merchant Marine, manned by U.S. mariners, is essential for a strong national defense, as well as our Nation's economic well-being. And that is the issue. The problem is well-defined, sir. We do not need to study the problem any more. We have studied it to death. We now need some active solutions, and I hope this committee hearing will be the catalyst for some of those active solutions.

The President's Commission on Merchant Marine and Defense has documented the situation quite well, as have other bodies. The Commission's four reports, which are public knowledge now, underline the fact that every indicator shows a downward trend. And that concerns me.

Just a couple of examples, and you all know them, but let me make them a matter of record. In 1970, we had 18 major ship liner companies, each operating five or more ships; today there are five.

In 1970, we had 905 ships in service in this country, flying the U.S. flag; now there are 424.

In 1980, just nine years ago, there were 19 shipyards. They were building 142 ocean-going ships; today there are only nine major private shipyards that are still in business, and there are no ocean-going commercial ships over 1,000 gross registered tons under construction; none, and none on order.

And that underlines the situation.

The President's Commission projects the decline will leave less than 200 active military useful ships by the year 2000, with an equally chilling shortfall of 12,000 seamen.

My considered opinion, sir, is that the solution to this is an active fleet, a U.S. Merchant Marine in its classic sense. We need a balanced maritime industry with a sufficient number of active ships to meet our national objectives.

And if I could underline anything in my statement, it is this: we need an active, capable Merchant Marine, supported by a strong private-sector infrastructure to meet our national security objectives and fulfill the economic needs of this country today and in the future. The problem is complex. We did not get to where we are overnight; we will not solve it overnight. The solutions, too, will be complex.

There are many issues to sort out, but this is the right moment to apply the solutions. We have the right people working the problems. We have the support of people like yourself, Senator Breaux. And we need to get on with it.

The first step, in my mind, is a national sealift policy. The national sealift policy must be implemented to set the course for increasing the U.S.-flagged share of the world market. And in economic terms, that is market share. The solution to the problem, in my mind, is market share.

Cargo is the lifeblood of this industry, and tragically, although America is the greatest trading nation in the world, and will continue to be the greatest trading nation on Earth, we only carry 4 percent of our imports and exports in U.S.-flagged ships.

Our recovery proposals must give the industry the ability to compete. We must put competition back into this industry. We must let this industry compete for a greater share of the cargo market of the world.

An approved Presidential policy, bringing government agencies together to develop policies and programs in support of the maritime industry, is what we must do. This does not necessarily mean outlays. As a matter of fact, the solution to problems in Washington frequently becomes "let us throw some money at it and pass a law and the problem is gone." That is not the solution to this problem. We did not get there this way. We do not need to do that this time for the solutions. We simply need to change the way we are doing things, because the way we are doing things has not worked and is not working.

Policies that were written years ago were very effective when they were written, but they must be made to fit the times. And times have changed. Many policies have become detrimental to the industry. We need to cut the shackles that inhibit competitiveness in this industry; both sectors of it, the ship operators and the shipbuilders.

We cannot afford to let this industry, of all industries, get stuck in time. And it is getting stuck in time. We must be willing to rethink the issues, stop doing things that no longer work, find things that have value added to them and do them, and make way for new policies and systems that will refit the industry for the next century.

Our goal, then, must be to empower both the ship operators and the shipbuilders, those that remain, with the ability to turn the industry around themselves. In other words, it is the job of the industry to turn itself around; it is not government's job to turn the industry around. We must, I believe, provide the atmosphere in which they can do what Americans do well, and that is compete.

The present approach is simply not working. The uniquely American approach of yoking shipbuilding and ship owners together has made it difficult for both of them. It is counterproductive to both. It is time to consider alternatives.

We must create an environment where they can compete once more. Shipbuilders, just as ship operators, cannot take on the world without support. They are not competing with other shipbuilders and operators, but with foreign companies supported, some of them in toto, by foreign countries. So the playing field is not level.

This will take a significant effort, Mr. Chairman. But that is what we are here for. That is what we get paid for. A team effort by a national coalition of the Departments of Defense, Transportation, Commerce, State—and certainly the coalition must include the Senate and the House of our Congress, along with all sectors of the maritime industry.

I am encouraged that there is a willingness to make those efforts today. I am encouraged that there is, more than ever before, a willingness to once again be a team. That has not existed before, and it exists now.

Regulatory practices must reflect evenhandedness and must increase our share of cargo carried in ocean-going foreign trade.

In summary, Mr. Chairman, with the right mix of government policies that will provide the opportunity to increase trade and capture that market share again, the U.S. maritime industry can return to a position of strength. As Mr. Bennett told us, it was once the greatest in the world, and it now lags considerably behind nations not nearly as great as ours.

It will add to our strategic deterrence. It will serve in national defense roles in times of national emergency. It will be competitive in the world market, and contribute jobs and revenues to an economy that badly needs it.

Now, I believe, sir, is the right moment to do that. And I look forward to helping all those who are interested, as I am, in getting underway.

That completes my statement, sir. I provided a written statement at some greater length, and I would like to have that entered in the record if I may.

[The statement follows:]

STATEMENT OF GEN. DUANE H. CASSIDY, COMMANDER IN CHIEF, U.S. TRANSPORTATION COMMAND

Mr Chairman and distinguished members of the committee, I appreciate this opportunity to appear before you today as a representative of this nation's newest unified command, the United States Transportation Command. Although this is my first opportunity to exchange views with this Committee, I already know we share a deep and abiding concern for the subject I wish to address today - sealift.

THE SEALIFT PROBLEM

Historically, our nation's wartime sealift strategy has been to rely on the merchant marine. They have responded with a long, proud tradition of wartime service to this nation both in support of national defense and support of the wartime economy. This fact was not lost on your predecessors who codified the need to preserve a robust merchant marine by passing the Merchant Marine Acts of 1904 and 1936. Certainly then, I think we all can agree on the continued need for a strong strategic sealift capability which has served us so well in the past. Strategic sealift is the only means to support large scale, sustained operations. But today, the merchant marine we counted on so heavily is rapidly disappearing. As a warfighter, I am deeply concerned.

Our merchant marine carries only 4 percent of our foreign oceangoing trade. It is no less unsettling that the US maritime industry has no commercial oceangoing ships under construction or on order in the United States and that the last large, oceangoing ship launched in the U.S. was the SS Kodiak on 9 November 1987. Further, the numbers of our merchant seamen, who man all of our commercial and military sealift ships, have dwindled 60 percent since 1970 to a current level of 28,000 and are projected to further decline to some

12,000 actively sailing by the turn of the century. Since our sealift capability is so vital to our national security, it deserves visibility and attention.

Successful implementation of "forward defense" — the global military strategy of the United States — requires all the various mobility elements to be adequately capable and ready — airlift, sealift, land transportation, and prepositioning. Also, we should not forget the command and control necessary to integrate and operate those elements. Sealift's unique mission, within this balanced mix of mobility elements, is to carry the bulk of the Army's combat power and sustainment supplies. For example, in Korea and Vietnam, this amounted to 97 percent of all war material moved. As you can see, there is no substitute for sealift's role in carrying out our national and military strategies.

To their credit, the Navy foresaw the impact of a declining US merchant marine on strategic sealift capability. Since 1980, they have invested nearly $7 billion dollars in sealift improvements to increase government owned sealift capacity to offset the declining civilian capacity. The Ready Reserve Force (RRF) has grown to 93 ships, 8 Fast Sealift Ships were acquired, and seasheds and flatracks were purchased to enhance the utility of commercial container ships. Also, thanks to DOD and Congressional support, we also enjoy the advantages of the Maritime Prepositioning Ships (MPS), 13 vessels uploaded with US Marine equipment and supplies to sustain three Marine Expeditionary Brigades (MEBs) of 16,000 troops for 30 days; a forward deployed 12 ship Afloat Prepositioning Force (APF) carrying equipment and supplies for

primarily Conus-based Air Force, Army, and Navy forces to marry up with in the theater of conflict; and numerous ship-to-shore cargo and fuel discharge improvements.

The President's Budget continues support for the above sealift enhancement programs as well as a program to increase the number of cargo ships in the Ready Reserve Force (RRF) to a total of 142 by FY1994. DoD has worked closely with the Maritime Administration in developing the FY 1990-91 budget and these programs are essential to maintain the ability to deploy our forces. This is the first year that the Maritime Administration has asked for funds for the Ready Reserve Force outside of the National Security function of the budget. Today, the RRF provides approximately 35 percent of our sealift capability to deploy combat equipment and I ask for your continued support for funding this important element of our sealift capability.

ALTERNATIVES

The question is how do we get and maintain the capacity we need for the long run. While there are many ways to do this, we have a responsibility to identify and pursue the most practical, productive, and least costly ones. Additionally, DoD has proposed that we adopt a National Sealift Policy and I am a strong supporter of that.

We support R&D for the maritime industry. America has always been in the forefront of maritime innovation; witness the roll-on/roll-off concept, the container ship, and Electronic Data Interchange. Investments now in sealift

technology, new ship design, and new propulsion systems can restore the US to its former status as a maritime pioneer while providing a natural solution for our shipbuilding industry. Even now our foreign competitors have made national commitments to sealift R&D with viable commercial options. For example, the Japanese Transport Ministry has set aside $4.3 million in the next fiscal year to develop a superconductor, electric-powered 60 MPH freighter capable of reducing the current 14 day transit time from Tokyo to Los Angeles to just four days. The Japanese claim their high speed ship will change shipbuilding history. Meanwhile, West Germany is pursuing innovations in automation and computerization of container ships. They have built two new container ships manned by a crew of 14 instead of the normal 18 seamen. The bridge of the ships are called ship management centers which can be operated by a single officer.

But in the United States R&D efforts in the maritime field are almost non-existent today. However, we have organizations that, if reasonably supported, could generate R&D initiatives. The Society of Naval Architects and Marine Engineers have a long history of successful R&D in the commercial maritime sector and the National Shipbuilding Research Program, Ship Design Committee intends to propose a national workshop to develop commercially competitive US ships of the future. They intend to not only catch up to existing technological advances and economic considerations but to use R&D as the vehicle to future competitiveness.

There are some encouraging forecasts that may signal important opportunities in the years ahead. Even the least optimistic sources predict an increase in

world trade figures by as much as two percent annually through the year 2000. There are indications that the mid-90s will see a revival in world shipbuilding orders which will continue well into the 21st century. One source predicts a need for an additional 38.5 million tons of new shipping between 1991 and 1995. The forecast jumps to 132 million tons by the late '90s. An industry that is modernized will be better positioned to capture some of this business. The future benefits of new technology await our action.

There needs to be investments in programs like fast sealift technology and automation to keep R&D alive within the maritime industry. Commercial feasibility is the key point here and it applies not only to R&D but to another sealift option which has garnered measured support recently - building additional 35 knot fast sealift vessels with existing technology. As I previously stated, I can't disagree with any viable alternative to increasing sealift capacity; buying more SL-7 type vessels, like the 8 ships now in our Fast Sealift Force, is certainly one available, partial solution. But I remain convinced it is only that; a partial solution.
The eight ships we have today represent a one-time, excellent opportunity to buy some commercially uncompetitive ships from the Sealand Company that were purchased and converted into highly military useful ships at the relatively inexpensive cost of about $105M per ship. It is estimated that construction of comparable ships today in the US would cost in the range of $300M to $350M per ship. Additional fast sealift would obviously improve our ability to deploy forces, but we have not yet determined that a program of this type has high enough priority to justify the $3 to $4 billion investment.

THE MERCHANT MARINE

Maintaining the US maritime industry requires a national effort. DOD cannot do it alone. To orchestrate such a cohesive national resolve to maintain our maritime capabilities, we must first establish a framework of policy guidelines for all to see. These guidelines will form a National Sealift Policy to chart our course and stimulate action for restoring health to the maritime industry. The National Sealift Policy will then serve as the common bond for the national coalition of the Departments of Defense, Transportation, Commerce, and State, Congress, and, probably most important, all sectors of the maritime industry.

Certainly, there will be a cost factor in any national policy that achieves an essential national objective. But initially, much can be done to begin the recovery of the maritime industry by a more efficient use of government funds already allocated to this area. Changes in policy, and even in laws, and simple attention and support by all segments of the government and industry could do much to improve this industry. Technology and the world market place also demand revisions to our maritime procedural and manning regulations. Although this list of potential changes is not all inclusive, the bottom line is our shipping and shipbuilding industries must be competitive to recreate a robust maritime industry.

CONCLUSION

Historically, our military strength has depended upon the vitality of our economy. A US national security objective as defined by President Reagan, in

a report to Congress in early 1988, stated, "Respond to the challenges of a global economy by heeding economic factors that affect our national security.....". On 25 Apr 89, Admiral Crowe said to the HASC, "..... America has no real choice between economic security and military security." Nowhere is this relationship more evident than in the US maritime industry. As this hearing demonstrates, there is a great deal of interest in our maritime industry. The required coalition of government and industry is close to coming together and it must move quickly.

Senator BREAUX. Without objection, it is so ordered.

Let us take the Honorable Everett Pyatt. We are glad to have you here.

STATEMENT OF EVERETT PYATT, ASSISTANT SECRETARY OF THE NAVY, SHIPBUILDING AND LOGISTICS, DEPARTMENT OF THE NAVY

Mr. PYATT. It is a pleasure to be here, sir.

If I may, I would like to submit my statement for the record. And I know you have a lot of questions that you would like to ask. And I think I am going to dispense with most of it.

To give a little bit of history, I think it is important—from the Defense Department's point of view, over the last several years, we have seen a major change in the structure of the industry. We found ourselves, for the very first time a few years ago, having to go into the market to buy ships that were becoming commercially uncompetitive, in order to maintain capability to deploy unit equipment.

This resulted in expansion of the RRF. We bought a couple of divisions worth of lift that is now in the RRF. As I project the future, and others may have different views, I believe in the unit equipment category, there is probably not cargo in the world that will generate use for major RO/RO ships that will be militarily useful. So, some other compromise will have to be found.

In the category of container ships, I believe this is the category that we should focus on, because these are the ships that provide for materiel replacement consumption. It is also one that Mr. Creelman, I think, will show later, projects the largest decline in the U.S. merchant fleet. And I think it is, from my perspective, one that can be attacked with some of the measures that have just been described: of getting access to cargo, being sure operators do have access to cargo, and not precluded from competition.

Shipbuilders have recently put in a Section 301 petition protesting unfairness of shipbuilding subsidies in four countries. That is going through review and comment in the Defense Department and in the rest of the executive branch now. But I think it points to a very, very fundamental issue. Our shipbuilders are not subsidized. Other shipbuilders, in commercial ships, are subsidized. And there is a major difference in prices. And therefore our people have not

been able to build ships, either for U.S.-flag lines, or for anyone else.

And I think some of the same factors pertain in the cargo area. I think that is an issue that is clearly within the purview of this committee. It has a direct relationship to our ability to support defense forces. And if some corrective action is not taken to maintain that share of cargo, we will soon find ourselves in the same situation that we found ourselves in, in unit equipment, a few years ago, and having to make Defense purchase ships just to have the lift.

We still do not have adequate manning arrangements, as General Cassidy will undoubtedly point out later. There are problems in where these people come from, whether they need to be military or should be civilian, and there are debates on both sides. But this is the evolution that the changing of the commercial posture is having on the Defense Department.

At the same time, our number one priority is the procurement and operation of military forces, and we now find ourselves in more and more competition for the money for these forces to take care of the sealift problem. And testimony shows that we have made substantial investments, $7 billion or so over the last few years, to provide sealift forces—where in the past we have not had to do that. I think that is kind of the policy crux that we are currently in. And I think the initiative that you have taken in this committee to help bring all the varying issues to light will do our country a great service.

Thank you, sir.

[The statement follows:]

STATEMENT OF EVERETT PYATT, ASSISTANT SECRETARY OF THE NAVY

Mr. Chairman and distinguished members of the Committee. I am particularly pleased to appear today to discuss strategic sealift and to clarify some of the issues in the sealift arena.

I would like to start by making one significant point. That is, while military sealift is a Navy function, it is also an interagency and alliance problem. Since World War I, the U.S. military has relied on commercial merchant shipping for sealift of military forces in wartime. The Department of Transportation is responsible for promotional programs that make sealift available from the commercial merchant marine and the Department of Defense is a user of those shipping services and sealift. In a war in which the U.S. is coming to the aid of one or more allies, it is only proper that those allies contribute where they can to U.S. sealift needs.

We have all heard that the commercial U.S. merchant marine is declining in size and military support capability. That is a fact that I believe is undeniable. The reasons for the decline are many; a worldwide shipping depression in the 1970's and 1980's; a high U.S. cost structure; and trade practices and cargo reservation practices of other countries that are, by U.S. standards, unfair.

For the last 15 years, the dry cargo carriage capability of the U.S. commercial merchant fleet has declined, but we have been

able to make up for that decline by increasing the government sealift fleet. The total deadweight tonnage of the U.S. commercial and government fleets has remained relatively constant. The Maritime Administration projects that the commercial dry cargo fleet will continue to decline from today's fleet of about 145 ships to a fleet in the year 2000 of 71 ships, (Figure 1). We expect the ships whose economic life will extend beyond the year 2000, to have a larger carrying capacity than the ships which go out of service. Although there may be an absolute decline in carrying capacity, it will not be in direct proportion to the number of ships being retired. We do not expect ship size to change in that time, so our carrying capacity will diminish proportionately.

Since the commercial fleet is becoming a containership fleet (from 66 percent today to over 80 percent by the end of this century, Figure 2), the significant dry cargo capability decline will be in container capability. Projected broad tanker capacity is not now a problem, although slowly declining, projected capacity continues to exceed our requirements (Figure 3). I will speak more to the containership problem later in the statement. For now, I would like to concentrate on the Navy's sealift program.

Early in this decade, the Navy recognized the decline of the commercial fleet and initiated a number of programs designed to make up for the loss of sealift capability. Since the future

trend in commercial shipping appeared to be intermodal; that is, container ship systems integrated with land transportation; we concentrated our efforts on maintaining breakbulk, roll-on/roll-off, barge carrier, and heavy lift ships that were best suited for sealift of military unit equipment (UE). It was in the area of UE-capable ships that the commercial fleet was declining most rapidly.

Perhaps our most visible program involved creation of a Ready Reserve Force (RRF) of 93 ships in recognition of a NATO alliance-wide decline of unit equipment-capable shipping assets. Other programs included:

- Construction or conversion of 13 prepositioning ships for three marine expeditionary brigades,
- Conversion of eight 33-knot commercial containerships into fast sealift roll-on/roll-off ships,
- Construction of five sealift tankers,
- Conversion of two tankers into hospital ships,
- Conversion of ten containerships into auxiliary crane ships for the RRF with two more planned,
- Conversion of two roll-on/roll-off containerships into aviation logistics ships,
- Procurement of SEASHEDS and flat racks to provide containerships with the capability to carry large size unit equipment.
- Procurement of equipment to facilitate cargo unloading in undeveloped ports.

At the end of the decade of the 1980's, the Navy will have spent more than $7.0 billion on this sealift improvement effort.

Despite our efforts and expenditures, total sealift capability, including Allied fleets and U.S.-owned, foreign-registered ships, has remained relatively constant because of the decline of the commercial fleet. Our programs have provided jobs for civilian seafarers, but the total civilian seafarer base continues to decline as fewer, larger, more capable ships put to sea with smaller crews. We project some problems manning our reserve ships because of this decline. We also see a decline in containerships which could impact on our ability to move containerized ammunition and resupply. Since we plan to use a portion of the containership fleet, equipped with SEASHEDS and flat racks, to move unit equipment, this could also affect our ability to deploy forces.

Although we have not yet attained the Department of Defense goal for unit equipment lift capability, Department of Defense sealift posture is better today than it has been for many years. There are several other areas in the Navy program where we believe shortfalls are more severe than in sealift. For example, budget restrictions have caused us to prematurely retire 49 frigates and destroyers and one aircraft carrier. We have had to drop some attack submarines and AEGIS destroyers from our five-year shipbuilding plan. Achievement of the 600-ship Navy, still

our goal, has been postponed until at least the late 1990's. The 600-ship Navy is the force we need to contain the threat against the sealift ships that would be engaged in deployment and resupply of forces to overseas theaters. We are doing our best to balance all of our programs at less than required budget levels.

Now I would like to address a few specific issues currently in public debate.

The Shipbuilding Base

Some have falsely attempted to use the decline in sealift assets as a basis for peacetime support of excess shipyard industrial capacity. Sealift ships cannot, however, be built after the start of a war and be of use in the early, most demanding stages of the war. Sealift ships must be in existence and operational at the outbreak of hostilities. Navy mobilization requirements for shipyards comprise completion of ship construction ongoing at mobilization, activation of the Ready Reserve Force and certain inactive Navy ships, sealift enhancements to selected merchant ships and battle damage repair. As for peacetime Navy support of the shipbuilding base, our auxiliary and support ship and sealift ship construction and repair programs have, in fact, preserved a sector of the non-combatant national shipbuilding industrial base that has been hard hit by the lack of commercial ship construction in the United States. While we sympathize with the currently depressed

industry, and we continue to support the need for an adequate shipyard industrial base, we cannot support industrial capacity that is excess to our needs.

Fast Sealift Ships

Strategic mobility is accomplished through a series of transportation linkages and mode changes that move the materials of war from unit stowage in the U.S. to front line combat troops overseas. Materials must be broken out of unit stowage in the U.S., prepared for movement, moved by land to U.S. ports, moved by air or sea to foreign ports, and moved by land to the front. In this movement, there are a number of delays for equipment preparation and mode changes (loading and unloading). Transportation by sea never amounts to more than half of the total time involved in deploying a given set of unit equipment. On the average, sea transit is only one-third of total deployment time. Concentrating on reducing time at sea, while important, improperly focuses on only one aspect of a very complex strategic mobility problem.

For example, if we create a notional timeline for the many transportation linkages and mode changes in a deployment to Europe, and assume a 40 mile per hour land transit and a 20 knot sea transit, we could find that it might take over 400 hours to

move a combat unit from mid-America to the front in Europe. This distribution of time might be:

Mode changes	168 hours
Land transit	35 hours
Sea transit	200 hours
	403 hours

For no investment in research and development, we could increase the speed of the sealift link from 20 knots to 30 knots by investing additional production dollars in existing technology. This would reduce the total time by 67 hours as follows:

Mode changes	168 hours
Land transit	35 hours
Sea transit	133 hours
	336 hours

A multi-billion dollar, decades long research and development program, followed up by additional decades and dozens of billions of dollars of production funds, might achieve a 50 knot sealift capability. These ships would cost more, be less numerous, and be limited in their cargo capacity. The time would be reduced by another 53 hours as follows:

Mode changes	168 hours
Land transit	35 hours
Sea transit	80 hours
	283 hours

However, another alternative, prepositioning afloat in European waters, would eliminate almost 300 hours from the original timeline. With no investment in ship research and development, 30 knot ships carrying duplicate unit sets could be stationed within 500 miles of a forward debarkation port and reach the port within 24 hours. The elapsed time for the first

lift could be reduced in the illustrative case to just over 110 hours, as follows:

Mode changes	84 hours
Land transit	5 hours
Sea transit	24 hours
	113 hours

The objective of strategic mobility is to deliver combined arms combat units with the correct mix of troops, equipment, ammunition, and supplies at the right time and the right place at the combat front. Balanced investment and engineering is required in each link of the strategic mobility chain, otherwise our combat units at the front will not be effective. We cannot over-engineer or over-invest in one element at the expense of other elements. Balanced improvements in unit readiness, airlift, land transportation, sealift, afloat prepositioning, and land prepositioning are needed.

Investments in technology cannot substitute for wise initial deployment decisions. This is precisely why we invested in the 13 preposition ships on station now in forward theaters for our Marine Corps. Our studies also have shown that sealift force levels and fleet cargo lift capacity are more important than high speed. Investment in technology for higher speed, and investment in the higher horsepower required, can be expected to reduce the number of ships that can be bought, and for the more exotic technologies, also reduce fleet cargo lift capacity.

As you know, there is currently no fast sealift new construction program. Beyond the Ready Reserve Force, there is no ship procurement program to further improve our sealift posture. As I mentioned before, in our efforts to balance all Navy programs within a constrained budget, we have not been able to fund significant new sealift programs of any type. I also believe that investment in fast sealift technology would not help stop the erosion currently taking place in our basic sealift asset, the U.S. commercial merchant marine.

National Sealift Policy

Much publicity has surrounded the development of a National Sealift Policy. I would caution those who see this proposed policy document, however it may finally appear, as a solution to the problems of the U.S. maritime industries. Whatever policy emerges from current deliberations will be only a first step. All concerned must then work together to develop the programs needed to support the policy. In the past, such cooperation has proven difficult to achieve. A number of proposals have surfaced over the years to solve various perceived problems, but the problems were not perceived to be the same by all, so the proposals were not adopted.

From a military point of view, two types of sealift are needed. Movement of unit equipment requires ships that can carry military vehicles such as tanks and trucks and non-self

deployable aircraft such as helicopters. The best ships for carriage of unit equipment are roll-on/roll-off (ro/ro) ships. Unit equipment capable ships have largely been phased out of world commercial fleets. This capability must therefore reside in the government fleet, and it does. (Figures 4 and 5)

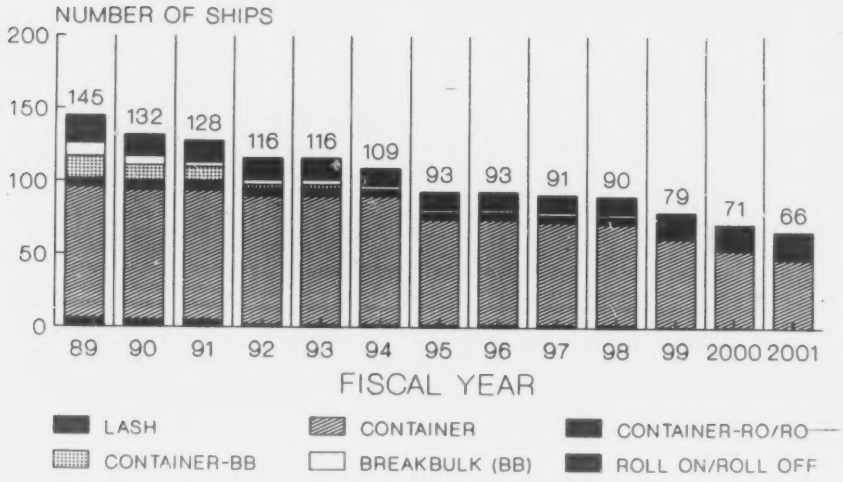
Resupply of deployed forces relies more and more on containerships. I mentioned earlier that the U.S. commercial containership fleet is declining rapidly, (Figure 6). In order to maintain a commercial U.S. containership fleet that can accomplish our resupply mission, U.S. companies would require more access to commercial container cargo. At present, U.S. containerships carry about 20 percent of liner-type, or containerized commercial cargo in U.S. foreign trade.

Summary

As I noted before, the sealift program is in reasonably good health. During the past 9 years, we have made substantial investments to improve and preserve sealift capability, particularly in the capability to deploy unit equipment. However, there are adverse trends in the U.S. commercial merchant marine that threaten to erode the capability to resupply deployed forces. Our current budget environment limits our ability to forestall such erosion. We have shortfalls in many other areas that need resources now.

Mr. Chairman, that concludes my prepared remarks. I would be pleased to answer any questions.

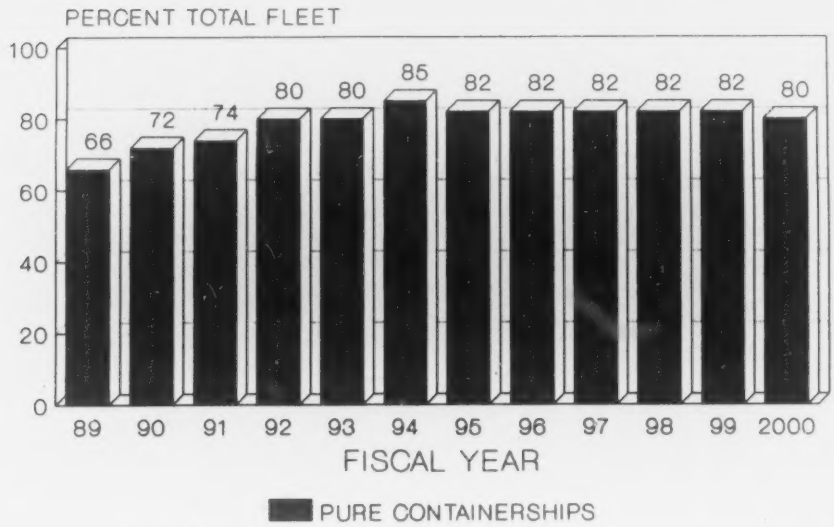
50% DECLINE PROJECTED
(U.S. FLAG DRY CARGO FLEET)



MARAD DATA MAR 89

Figure 1

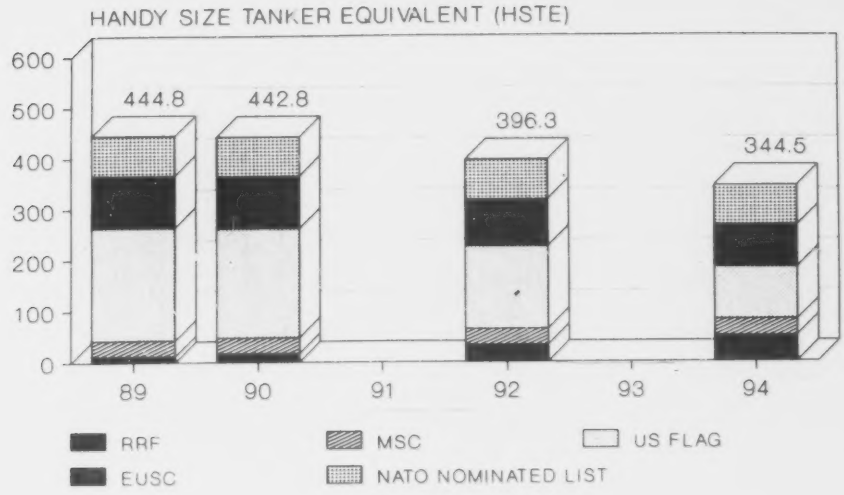
CONTAINERIZATION TREND REDUCES MILITARILY USEFUL U.S. FLAG FLEET



MAR 89 DATA

Figure 2

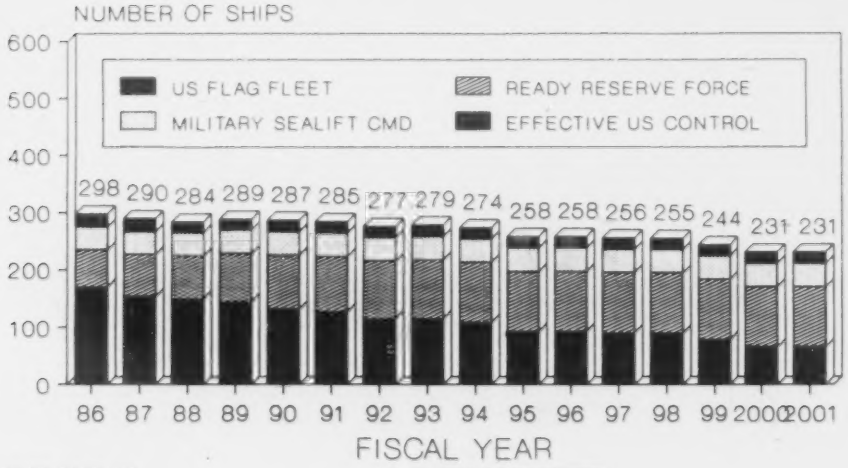
TANKER RESOURCES (HSTE)
PROJECTED TO EXCEED REQUIREMENT



MARAD MAR 89

Figure 3

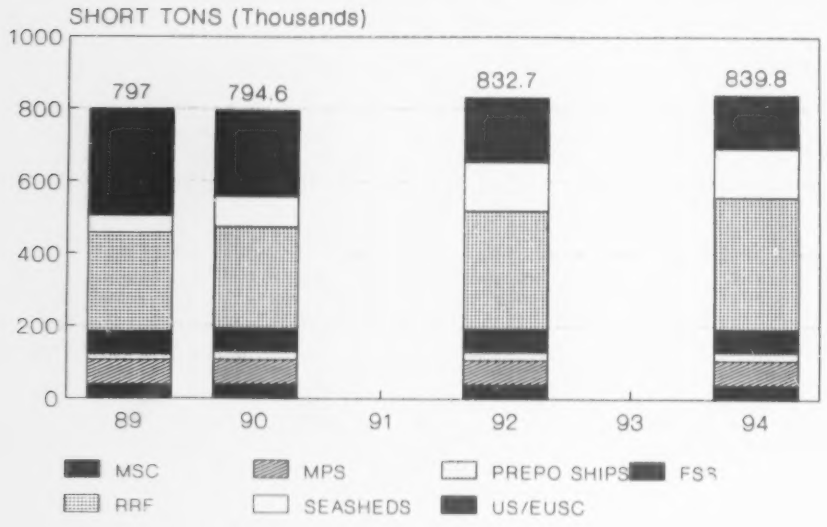
TOTAL U.S. SEALIFT CAPABILITY
DRY CARGO SHIP FORECAST
UE* & SUSTAINMENT CAPABLE SHIPS



MARAD MAR 89
* UNIT EQUIPMENT - TANKS,TRUCKS,ETC

Figure 4

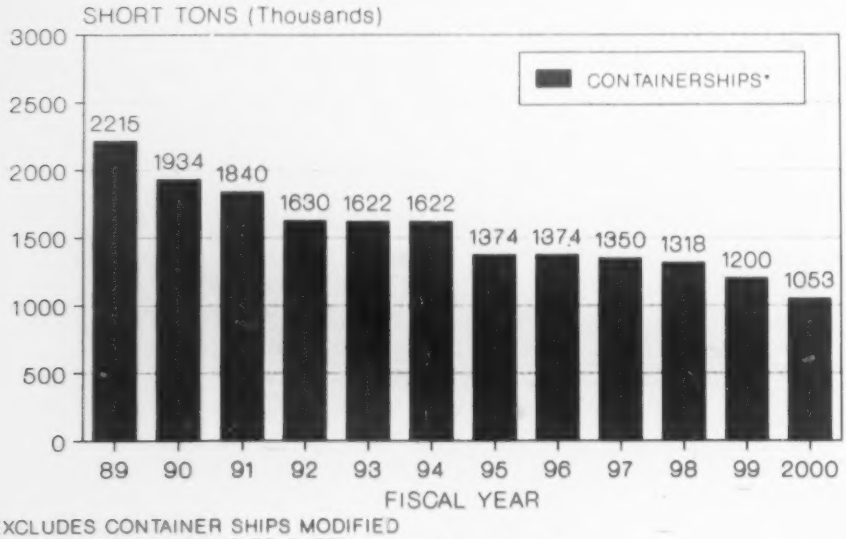
SEALIFT UNIT EQUIPMENT CAPACITY



MSC = MILITARY SEALIFT COMMAND
COMMON USER FLEET

Figure 5

US FLAG CONTAINERSHIP LIFT CAPACITY 1989-2000



EXCLUDES CONTAINER SHIPS MODIFIED WITH SEASHED SYSTEMS TO CARRY UNIT EQUIPMENT

Figure 6

Senator BREAUX. Thank you, Mr. Secretary.
Mr. Creelman.

STATEMENT OF WILLIAM A. CREELMAN, DEPUTY ADMINISTRATOR, MARITIME ADMINISTRATION, DEPARTMENT OF TRANSPORTATION

Mr. CREELMAN. Good morning, Mr. Chairman. I appreciate the opportunity to participate in this forum this morning. I too would like to summarize my statement. I believe you have the full statement for the record.

Senator BREAUX. Without objection, it will be made part of our record.

Mr. CREELMAN. The Department of Transportation clearly recognizes that sealift is a critical national issue. Secretary Skinner has recently joined Secretary Cheney's call for a statement of a national sealift policy. In addition, Secretary Skinner is taking the lead in developing a national transportation policy. The outreach to the maritime community that is part of the policy development has begun.

Sealift is the term we use to describe the shipping capacity that would be required to deploy and sustain U.S. armed forces in a period of national emergency or war. The sealift requirement includes specific demands for many types of ships: breakbulk ships, RO/ROs, containerships and tankers. This requirement can only be met by providing the right numbers of the right types of ships, and making sure that the ships are available in a timely manner. The requirement for sealift is based on the national security strategy established by the President.

MarAd has very specific responsibilities in the sealift function. The primary mandate is contained in the Merchant Marine Act of 1936, which establishes as national policy the need to have a Merchant Marine "capable of serving as a naval and military auxilliary in time of war or national emergency."

There are two major components to the MarAd programs: first, the active U.S. Merchant Marine; and second, government-owned ships that are maintained near domestic ports of embarkation at a high level of readiness. Both of these components are essential to the sealift role. And each provides unique capabilities that are not available elsewhere.

A commercially viable Merchant Marine is a critical defense mobilization asset. Unfortunately, the outlook for our merchant fleet is not encouraging. For instance, the number of ships in our liner fleet has fallen from 494 in 1970 to 197 currently, though the number of cargo tons handled remains about the same.

There is also a growing divergence between the military and commercial utility of merchant vessels. Older designs, such as breakbulk, lash and RO/RO are rapidly being replaced by large containerships which, while militarily useful, are not ideally suited for the carriage of military equipment.

However, all available containerships are used in mobility planning studies, and additional containerships are generally required to meet shortfalls. Since these ships are the most commercially viable part of the U.S.-flagged fleet, we strongly support the vari-

ous joint MarAd and DOD efforts to increase our ability to containerize unit equipment.

A second component of U.S. sealift capability is the Ready Reserve Force, created in 1976, to provide the initial surge of sealift and to provide the types of ships that are critical to moving military equipment.

The RRF now includes 93 vessels. The fiscal year 1994 DOD goal is to have a fleet of 142 ships, consisting of 104 dry cargo ships, 36 tankers, and two troopships.

While we have had considerable success in test activations of this fleet, we have learned that we need to increase our activations to be sure that our intended readiness standards are achieved and that these ships can be counted on as long-term sealift assets. However, there is a very real and growing concern as to how to assure the availability of trained crews to operate these ships in a future emergency.

Shipyards and the shipyard supplier base located in the United States are also critical to sealift. U.S. shipyards are essential for activating the RRF as well as any idle private fleet ships, outfitting the ships from the active Merchant Marine for their sealift role, and repairing battle damage.

Given current trends, it is not apparent that adequate shipyard capacity will be available from U.S. shipyards in the future. There are at present no commercial merchant ships being built in U.S. yards. As a consequence, U.S. shipyards now must rely mainly on naval construction and ship repair work.

In addition, we estimate that the maintenance of the RRF over the next five years, including the proposed 50 new acquisitions, will provide the ship repair industrial base with an average of $107 million worth of work annually.

The interest of the government, however, is served by continuing to improve the productivity of U.S. yards, both public and private. Improving productivity would result in reduced costs for naval construction; reduced costs and improved schedules for modification, maintenance and activation of ships in the Ready Reserve Force; and improvement of the shipyard mobilization base.

In conclusion, the U.S. Merchant Marine is an integral component of U.S. national security. An adequate U.S. shipyard capacity is also necessary. However, since estimates indicate that the projected U.S. maritime industries cannot meet future sealift requirements and that we are losing our shipyard mobilization base, it is critical that we move rapidly to enhance the ability of our maritime industries to meet national security requirements.

Mr. Chairman, I would be remiss in my conclusion if I did not point out the dilemma with which we are faced during peacetime. On the one hand, we have a U.S.-flag commercial fleet in the foreign trades which cannot be cost competitive in the world market if it has to build its ships in U.S. yards with their present higher costs. On the other hand, the shipyard mobilization base requirements for a national emergency clearly exceed the limited capacity supported by repair work and new construction required by the companies operating under the Jones Act. This is not an encouraging picture. However, these are the problems that I believe we must solve.

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That concludes my statement and I will be prepared to answer questions as appropriate.

[The statement follows:]

STATEMENT OF WILLIAM A. CREELMAN, DEPUTY MARITIME ADMINISTRATOR, DEPARTMENT OF TRANSPORTATION

Mr. Chairman, I am William A. Creelman, Deputy Martime Administrator of the Department of Transportation. I appreciate the opportunity to appear before you today to discuss the ability of this Nation to meet our sealift requirements and the issues that relate to our sealift requirements and capabilities.

The Department of Transportation clearly recognizes that sealift is a critical national issue. Secretary Skinner has recently joined Secretary Cheney's call for a statement of a national sealift policy. In addition, Secretary Skinner is taking the lead in developing a national transportation policy. The outreach to the maritime community that is part of the policy development process has begun.

Sealift is the term we use to describe the shipping capacity that would be required to deploy and sustain U.S. Armed Forces in a period of national emergency or war. The sealift requirement includes specific demands for many types of ships: breakbulk ships, RO/RO's, containerships and tankers. This requirement can only be met by providing the right numbers of the right types of ships and making sure that they are available in a timely manner.

The requirement for sealift is ultimately based on the national security strategy established by the President. This national strategy is used in the Department of Defense (DOD) mobility planning process, in which the Maritime Administration (MARAD) participates, to generate sealift requirements for explicit numbers of types of ships. This process considers the amount of equipment and supplies that the military has to move, where these cargoes must go, and how quickly they must reach their destinations. As my colleagues from DOD have stated/will state, this planning consistently shows that about 95% of all equipment and petroleum needed to deploy and support U.S. military forces abroad would have to move by sea. It can be readily concluded that providing adequate sealift is a formidable task.

MARAD has very specific responsibilities in the sealift function. The primary mandate for our sealift role is contained in the Merchant Marine Act of 1936 which establishes, as national policy, the need to have a merchant marine "capable of serving as a naval and military auxiliary in time of war or national emergency."

There are two major components to the sealift capability provided by the MARAD programs: The active U.S. Merchant Marine and Government-owed ships that are maintained near domestic ports of embarkation at a high level of readiness. Both of these components are essential to the sealift role, and each provides unique capabilities that are not available elsewhere.

ROLE OF THE ACTIVE MERCHANT MARINE IN SEALIFT

A commercially viable merchant marine is, by its very nature, a critical defense mobilization asset. A primary source of the ships used for sealift is the active U.S. merchant fleet. Unfortunately, the outlook for our merchant fleet is not encouraging. The number of ships in our liner fleet has fallen from 494 in 1970 to 197 currently. U.S. operators have faced higher capital and operating costs as well as a burdensome regulatory regime compared to that experienced by their foreign competitors. The total tonnage has not declined because commercial ships have become larger. Even though the aggregate deadweight capacity of the active U.S. oceangoing fleet has increased since 1976, most of that increase has been in large tankers and large containerships.

The growth in the size of ships and the need for commercially efficient ships have created a growing divergence between the military and commercial utility of merchant vessels. Older designs such as breakbulk, LASH and RO/RO are rapidly being replaced by large containerships which, while militarily useful, are not ideally suited for carriage of most wheeled and tracked military equipment. However, it should be noted that in the mobility planning studies, all available containerships are used and additional containerships are generally required to meet shortfalls. Given the fact that the large containerships are the most commercially viable part of the U.S. flag fleet, we strongly support the various DOD efforts to increase our ability to containerize unit equipment.

Since estimates indicate that the projected U.S. Flag Merchant Marine cannot meet future sealift requirements, it is critical that we move rapidly to enhance the ability of our merchant fleet to meet national security requirements. The concepts

of operating-differential subsidy reform proposed by the last administration would go a long way toward further reducing capital and operating costs and would take steps toward the reduction of burdensome regulation. It would allow worldwide vessel acquisition and streamline operating subsidies and their administration.

READY RESERVE FORCE

In recognition of the need to provide assured, responsive shipping to support the rapid worldwide deployment of U.S. military forces, the Ready Reserve Force (RRF) was created in 1976 as a component of the national defense reserve fleet. A key element of the strategic sealift program, the RRF is structured to provide quick response ship availability to transport unit equipment and initial resupply for forces deploying anywhere in the world during the critical initial period before active commercial ships can be marshalled. The RRF was established to provide the initial surge of sealift, and the types of ships that are critical to moving military equipment but are no longer adequately available in the active commercial fleet. Examples of these ships are RO/RO's, LASH, and self-sustaining general cargo ships. The RRF also contains some ship types which are simply in short supply in the U.S. fleet, such as product tankers. Some special purpose vessels also make up the RRF, like the auxiliary crane ships used to unload gearless container ships, which would never be found in an active commercial fleet. The RRF now includes 93 vessels and the FY 1994 DOD goal is to have a fleet of 142 ships consisting of 104 dry cargo ships, 36 tankers, and 2 troopships.

The RRF ships are maintained in a high state of readiness and are intended to be available within 5, 10 or 20 days. While we have had considerable success in test activations of this fleet, we have also learned valuable lessons from activation problems. We need to increase our activations to be sure that our intended readiness standards are achieved and that these ships can be counted on as long term sealift assets. However, there is a very real and growing concern as to how to assure the availability of trained crews to operate these ships in any future emergency.

ALLIED SHIPPING RESOURCES

MARAD also is responsible for a third source of shipping capability that would be used in wartime. MARAD represents the U.S. Government on the NATO planning board for ocean shipping (PBOS) which is responsible for assuring the availability of vessels for sealift and general allied use in a NATO war. DOD, in conjunction with MARAD, has completed a NATO sealift sizing study designed to address the supply/demand of merchant vessels for a European conflict. While the details of that study are classified, it can be stated that a shortage exists. We have formally requested PBOS to increase the commitment of allied ships that would be available for use in the reinforcement of Europe.

STATUS OF SHIPYARDS

Shipyards and the shipyard supplier base located in the United States also are critical parts of the sealift equation. A certain amount of U.S. shipyard capacity is essential for activating the RRF and outfitting the ships from the active merchant marine for their sealift role. A U.S.-based shipbuilding industry is essential for keeping ships in good operating condition in wartime.

However, this critically important shipbuilding industry is also in a decline. The U.S. "active shipbuilding base" (ASB), as identified by the U.S. Navy and MARAD, is composed of those privately owned shipyards which are engaged in, or actively seeking, construction contracts for major oceangoing or great lake ships of 1,000 gross tons and over. As of January 1, 1989, there were 19 ASB shipyards. The ASB shipyards employ approximately 89,000 people, about 70 percent of the shipbuilding and ship repair industry's total work force of about 127,000, both of which are down about 25 percent from cyclical peaks in 1981. The remaining 30 percent is distributed among 550 smaller yards and facilities, according to the Bureau of Labor Statistics (BLS). In addition, there are nine Government-owned shipyards, which in recent years, have not engaged in new construction, but rather in the overhaul and repair of Navy and Coast Guard ships.

The total value of work completed by U.S. shipyards in 1988 was $8.7 billion, down 2 percent from 1987.

During the 1980's, the largest ship construction program in the U.S. Navy's peacetime history—nearly $100 billion appropriated—has been underway. Contracts for construction, conversion, and repair of Navy and Coast Guard ships accounted for

more than 90 percent of the production work force in the ASB in 1988. This percentage of employment supported by Navy work is expected to remain steady in 1989.

COMMERCIAL SHIPBUILDING

Worldwide, commercial shipbuilding always has responded to cycles in world trade patterns and technological change as well as to the after effects of war-related surges. As of March 1, 1989, there were only 1,079 oceangoing merchant type vessels under construction or on order throughout the world, continuing a pattern of decline from about 2,000 vessels in 1979. The decline is particularly severe in the traditional European shipbuilding countries.

Reflecting that pattern, the U.S. commercial ship construction market is at its lowest level since before World War II. The orderbook declined rapidly after 1978 and remained at a very low level until the mid-1980's. Since 1987, no orders have been placed with U.S. shipyards for commercial vessels of 1,000 gross tons and over. The last commercial vessel completed by a U.S. shipyard was delivered to Sea-Land Service, Inc., on November 9, 1987. There are at present no merchant ships being built in U.S. yards.

As of December 1, 1988, our active fleet of 166 oceangoing domestic trade vessels and 168 U.S. vessels in foreign trade (1,000 grt and over) provides a nucleus of repair work for our yards, as do our 78 Great Lakes Jones Act vessels. In addition, our coastal, inland, and offshore oil service and fishing vessels provide work to our smaller shipyards.

In this area, MARAD has two promotional programs to assist building in U.S. yards. The Title XI Program provides for loan guarantees up to 75 percent of a vessel's cost. The other program is the Capital Construction Fund, which is a tax deferral program. While these two promotional programs are available to both the Jones Act and the U.S.-flag international merchant fleets, they are not currently generating new ship construction because of the high cost of building in U.S. yards.

U.S. yards, even with a maximum of 50 percent subsidy to offset foreign costs, ceased to be competitive in the late 1970's. Frequently, new ships can be built abroad for one-half to one-third of U.S. yard costs for essentially the same ships, and they can be built in one-half the time as well. The most productive foreign yards are building major commercial ships using less than 20 man-hours per ton of steel erected, while the best U.S. yards presently require more than twice as many man-hours. For this reason, our construction differential subsidy program was not viable, and it was suspended.

The interests of the Government, however, are served by continuing efforts to improve the productivity of U.S. yards, both public and private. Improving productivity would result in reduced costs for naval construction; reduced costs and improved schedules for modification, maintenance and activation of ships in the Ready Reserve force; and improvement of the shipyard mobilization base.

All repair and maintenance work on vessels purchased for the RRF program must be performed at U.S. facilities. The planned addition of 50 ships into the RRF over the next 5 years, if it can be financed, will provide the domestic shipbuilding/repair industrial base with an additional estimated $93 million worth of work. To the extent that these acquisitions of RRF ships are foreign-flag, past experience indicates that the cost of reflagging and bringing foreign-acquired vessels up to U.S. standards would generate approximately $4 million per ship in U.S. shipyards. On the basis of MARAD's annual repair and maintenance requirements of approximately $750,000 per ship, we estimate that the maintenance of the entire RRF over the next 5 years, including the proposed 50 new acquisitions, will provide the ship repair industrial base with an estimated average of $107 million worth of work annually.

FY 1990 RRF FUNDING REQUEST

The President's FY 1990 budget proposes an RRF funding level of $239 million. While representing a significant increase over MARAD's 1989 level of $110 million, the level requested is very close to the DOD funding levels for the past few years and reflects close coordination with the DOD in the budget development process. The funding is needed in 1990 if we are to meet the 1994 goal of expanding the current level of 93 RRF vessels to 142. This goal is based on DOD's projections of the shortfall in sealift capability of specific ship types that are required in light of the continuing containerization of the U.S. commercial fleet.

CONCLUSION

The U.S. Merchant Marine is an integral component of U.S. national security. Adequate U.S. shipyards capacity as defined by DOD is necessary to meet military mobilization requirements for activation of reserve military and commercial ships, installation of sealift enhancement features, and battle damage repairs.

As of 1989, U.S. yards are relying mainly on navy construction and ship repair work. The trend is toward a shipyard base composed of fewer ship construction facilities and a limited number of smaller repair yards. The decreasing capacity of the mobilization base, combined with the loss of critical, hard-to-replace skilled labor, the continuous decline of associated production workers, and the erosion of the essential supplier base are all factors which, if continued for a number of additional years, will have a significant impact on the industry's capability to support a national defense effort.

Finally, Mr. Chairman, I would be remiss in my conclusion if I did not point out the dilemma with which we are faced during peacetime.

On one hand, we have an international commercial fleet which cannot be cost competitive in the world market if it has to build its ships in U.S. yards with their present higher costs. On the other hand, the shipyard mobilization base requirements for a national emergency clearly exceed the limited capacity supported by repair work and new constructions required by the companies operating under the Jones Act.

This is not an encouraging picture. However, these are the problems that I believe we must solve. You can be assured that Secretary Skinner, in developing the maritime portion of the national transportation policy, will be discussing these difficult problems with the Secretary of Defense.

This concludes my statement. I will be pleased to answer any questions the subcommittee may have.

Senator BREAUX. Gentlemen, thank you all for your testimony, your presence at the hearing and for your continued interest and work in this very important area.

General Cassidy, you are a person I have a great deal of respect for. You admit that you come into this as a newcomer. And I think that is probably very good. We need some new ideas and new thoughts and new focus on this problem. We have been fooling around with it for far longer than I have been in Congress, which is 17 years. And we still are giving the same type of opening statements that we gave 17 years ago about the trend and the downturn in the U.S. ability to have a strong sealift policy.

We hear that today we are getting out of the Secretary of Transportation a sealift policy that eventually is going to be presented. It makes you wonder why we have not had that for the last 25 years, which apparently we have not.

I notice that your statement—I think it has been sanitized fairly well—has got a lot of platitudes in it. I mean, you say things like, "We have to have an ability to compete for cargo; throwing money at the problem is not the answer; we need to change the way we do things; the old policies need to be changed to fit these times; we have to cut the shackles; we should not do things that do not work; we should consider alternatives." That all sounds great, but it does not tell me what I need to do.

And I guess what I am looking for is some specific recommendations from a person who is in charge of our military transportation. If you had the pencil and could write something for me, what would you say all this tells me I ought to be doing? I mean, does it tell me I ought to be developing a ODS-type of program? Does it tell me I ought to be doing a construction differential-type of program for shipyards? Does it tell me I should be reserving more cargo for American ships? Does it tell me I should be putting more

money in the Ready Reserve Fleet, or taking some money from the Ready Reserve Fleet and using it for one of these other types of programs?

What does it tell me specifically, other than some nice things that sound very good, that I should be doing, and indeed this Congress should be doing?

General CASSIDY. Sir, if I were king for the day, as you have given me the opportunity, I would start out with five areas. All of them are controversial, all of them will not even have the concurrence of the people that are testifying here today, but this is what I would start out with, and I would do it as quickly as I could. Because every day we lose, we lose time.

First, I would decouple the U.S.-flagged carrier industry and the shipbuilding industry. There is no other industry in this country that I know of where we keep two dissimilar cultures tied together. And it is a disservice to both of the cultures. That is, the shipbuilders and the ship operators. The yoking of these two industries together, in my mind, does nothing but stifle competition, rather than build competition.

Senator BREAUX. How do we tie them together? And what do you mean by decoupling? What would we have to do to decouple?

General CASSIDY. Decouple the shipbuilding and shipoperating segments and allow the U.S. operators to buy ships where ships are the best for them to buy; the best being the kind they need, that serve their purpose, the most economical for their purpose, the most efficient for their purpose. Do not say you can only buy ships in certain shipyards.

Senator BREAUX. In other words, build foreign?

General CASSIDY. Buy anywhere you can get them, yes, sir. I think that will do two things. First of all, that will drive the costs down of the ship operators and it will make them competitive. And it will make, once again, the shipyards of this country competitive, because they will have to be competitive.

When you guarantee them the business of the United States, there is no need to become competitive. That is not capitalism as I see it.

Senator BREAUX. How would you answer the argument by shipbuilders who point out that, even with the assistance and this coupling arrangement, they are still going down the tube, and we do not have the base that is needed?

General CASSIDY. The reason they are going down the tubes is they are not competitive. They have not modernized the shipyards, and if they would use yankee ingenuity and technology, which are the long suit this country has, they will become competitive.

As a matter of fact, the yard workers' salaries—the labor costs are competitive. Our labor costs in this country are less than the costs in Europe and in Japan right now. So there is no reason we cannot become competitive on the market. We should not saddle our shipbuilders only to U.S. markets. They should be out selling ships to everyone else. And they can do that if we let them.

Senator BREAUX. I do not want to get off what you are getting ready to tell me, but on that point, Mr. Creelman, I see in your testimony you speak to the fact that the most productive foreign yards are building major commercial ships using less than 20 man-

hours per ton of steel erected, while the best U.S. yards presently require more than twice as many man-hours. That is what you are talking about?

General CASSIDY. That is exactly what I am talking about, sir. We need to modernize that industry. It has languished. It is stuck in time. It was stuck in time, 20 years ago.

Senator BREAUX. I know that Mr. Stocker is going to want to address that when he has his chance. And we are certainly going to give him that chance.

Okay, that is number one; what is number two?

General CASSIDY. As I said, these will all be controversial, sir. Of course, there would not be any solutions if they were not.

Senator BREAUX. And that is very true.

General CASSIDY. It is a time for statesmanship.

The second issue is I would eliminate regulations that increase the cost of U.S.-flagged ships to operate. There are regulations that are simply inconsistent. Those are our own governmental regulations. Things that talk about basic structure. The ad valorum tax placed upon our ship operators to have repairs done overseas, which they just simply pay no attention to any more, because it is still cheaper to do it overseas. We need to look at all these restrictions and throw the ones out that are not working.

And I, quite frankly, would throw them all out.

We need to look at the tax base; another very controversial issue, particularly since we have just gone through a wrenching tax reform in this country. Nonetheless, I submit to you that if our ship operators are being taxed in their operations, and the people they are competing with are not being taxed, and that is occurring, then we are going to lose.

So we cannot ignore that situation as we prepare to establish a tax base for this industry. And there are lots of things that can be done in the tax arena. I am certainly not an economist, but I know that the tax reform has hurt this industry when it was already hurting.

ODS reform, you mentioned that——

Senator BREAUX. When you speak of the tax base—let me interrupt you just for a second—are you talking about the operators or the builders or both?

General CASSIDY. I am specifically talking about the operators in this case, but I would review it for both segments of the industry. The operators because, once again, I am trying to level out the playing field they are on so they can compete. I am not trying to give them an advantage over other U.S. industries. I am trying to recognize the market that they are in, and they are getting beat in that marketplace, and I want to do something about that.

The same thing for the ODS issue. This industry needs some sort of differential subsidy. Now this is not pure subsidy as the American public thinks of subsidy. This is really an investment in the people in this industry.

As a matter of fact, you could call it buying a reserve of some sort. Nonetheless, it is a differential subsidy. It does not fully subsidize the industry, it just provides for a subsidy to bring the differential up—bring the playing field up level so our guys can get in there and compete. I am not looking for handouts. I am just saying

that we are committed to some differential subsidy in this industry now, we have been since the existence of the industry. We cannot take that away. And I believe that the very meager amount of subsidy that now exists can be better used if we have some reform.

And that reform would simply be to take all the restrictions away. Wipe the slate clean. Recognize the differential subsidy for what it is, about 85 percent of the $230-some-million that we use in subsidy goes directly to the seamen. And that is exactly what we want to do. And we want to do that without gumming it up with all sorts of restrictions and regulation.

Senator BREAUX. Let me ask you, on that point, about the need for an operating differential subsidy. How is that consistent with your first point that you made with regard to shipyards, where you are saying that they just have to compete? But, I take it, when you are talking about operators of ships, that they need subsidy because of the tough situation in the world market?

General CASSIDY. There is no construction differential subsidy now, as you know. And I think we must look at that, and also make that playing field level if need be. I do not know that situation exists now. I do not know that subsidy would be necessary if we permit, if we encourage, if we incentivize the shipyard industry to modernize, to use technology.

And as I said, right now, our labor costs in our yards are lower than the yards in Europe and Japan. So I do not know that that differential subsidy is needed.

Remember, I believe a subsidy is only needed to level the playing field; it should not be used as a handout or to keep somebody at the public trough. It needs to be there to provide——

Senator BREAUX. Well, hopefully, the filing of the complaint, section 301 of the Trade Act, by shipbuilders against other countries who seem to be, at least in my opinion, in violation of provisions of our Trade Act, would be a remedy.

General CASSIDY. I think that would. It would certainly be enlightening for all of us. And it would certainly get some of the issues on the table that would make the issue you brought up clearer.

The other issue, though, in ODS, is very clear. It is very apparent. And we have a very good example in the two largest liner companies, one subsidized, one not subsidized. And their profit and loss statements will show very quickly the effect of subsidy versus non-subsidy.

The last thing I would do, sir, is just go out there and get market share. And I do not have a good panacea for this. As a matter of fact, all of the suggestions I have heard have some baggage with them. But I know this for a fact, that we have lost market share every year. I have looked at the charts, and in the 1950s, we had 50 percent of world market share. The market has grown exponentially, and we, at the same time, have lost market share.

The answer then, the solution, the financial solution to this problem is not to throw money at it or appropriate money out of the Congress, but is indeed to provide a field in which we can capture market share. And I would set ourselves some goals for that. It is 4 percent now overall—it is 14 or 15 percent of the liner industry now, and I would say we should increase that by X number of per-

centage a year until we get up to the point where, from my point of view, we have sufficient shipping for national defense.

I certainly would not want to stop at that, as a citizen's point of view, but my major concern at this moment is that of national security.

Senator BREAUX. When you talk about going after market share, obviously, the question arises: How do we do that? And I have two questions. The first one is really, would you be advocating a reservation of cargo—a cargo preference-type of program to arrive at that market share level that you think is appropriate and necessary?

General CASSIDY. I do not think there is any one solution. I think some of that would be appropriate, particularly with some countries. With other countries it would be inappropriate; as a matter of fact, self-defeating.

So I think, for instance, that bilateral agreements with some of the Third World and developing nations are quite appropriate and quite proper and would work. And we have some of those now. We have a good example of that; with Brazil, for instance.

I think on the other hand, that sort of solution with some of our larger trading partners, like Japan and Germany and England, might be counterproductive. And therefore we must resort back to the free trade theory and notion that we have lived by for so long and which has made us the largest trading nation.

So I think it has to be looked at individually, and I think the answer to that is yes, some of that: yes, some cargo preference; yes, some bilateral agreements, where they apply and will work. And we have certainly the right minds in this country to decide where that would work. And I think we should explore all of those arenas.

But I think we should have as the goal, capturing market share and look at market share where it exists. The market in Japan is different from the market in Brazil. The market in Brazil is different from the market in South Africa. And I think we must look at each individually and explicitly.

Senator BREAUX. The second point on that market share question is upcoming GATT talks that are going to be ongoing. There is a great deal of concern by many of us in the Congress who are concerned, particularly about the condition of the U.S. Merchant Marine, about whether that question of negotiating with the Merchant Marine interests should be part of a trade negotiation. I feel very strongly that it is part of our national security and national defense; it is not something that you negotiate with during economic trade negotiations.

Do you have any thoughts on that?

General CASSIDY. Well, I am not an authority on GATT, but I have certainly heard enough noise on GATT, from people that I respect greatly, to share some of your concerns. So my concern, if I may do that, sir, is that anything that would affect or further accelerate the decline of the Merchant Marine, I am against. And therefore, by the judgments of you and some of the labor leaders and others, of this country, if you believe it would negatively affect the Merchant Marine, I am with you, I am against it.

Senator BREAUX. Well, we certainly got away from the platitudes quickly.

I really thank you for your suggestions. I know that it is not without a great deal of thought. You are in charge of transportation for the military. I mean, that is talking about air transportation, ground transportation, and water transportation.

General CASSIDY. Yes, sir.

Senator BREAUX. How would you compare the condition of the three, vis-a-vis the national security/military interests—the status of our ground transportation and our air transportation capabilities versus the water-borne transportation?

General CASSIDY. Well, first of all, the industry—and I must talk about industry here, although certainly I will include that organic capability which resides in the military today. Nonetheless, 85 percent of the capacity I would use in wartime, 85 percent will come from the private sector.

Senator BREAUX. Is this overall?

General CASSIDY. Overall; 50 percent of airlift, over 90 percent of sealift, close to 90 percent of ground transportation, all added up to be about 85 percent.

And as a matter of fact, an awful lot of even the organic capability I have resides in reserve. For instance, in airlift, which is what I need first is the quickest, and the most reactive and flexible, 85 percent of my airlift capacity resides in the reserve forces today, and that is in the civil reserve air fleet as well.

So let me characterize that whole industry. First of all, the transportation industry of the world is booming. It is absolutely booming. It is a high-tech industry. It is an exciting industry. And moving boxes around is exciting because of what we are doing today in all segments of the industry.

The airline/aircraft industry contributes more to the balance of payments of this country than any single industry in the country. We must keep that going. It is healthy, it is supportive. And what we are doing in that industry is good, and what we are doing in the military is good. We are building the C–17. It is a large program with great support in the Congress and from the Department of Defense, and it is moving through very well, and the development program is good.

So the air industry is solid, growing and booming.

With regards to the ports of our nation, our ports have never been in better shape. The ports are very modern. They are very large in capacity. They can handle throughput better than they have ever been able to handle it. The shocking thing is you can go into a port in our country and see no U.S. flag there. That is the problem in the port. It is not the port capacity.

The railroads have never been stronger. There is less track than there was before. There are fewer locomotives than there were before, but that which is there is more productive than it has ever been before. And that industry has turned around enormously. It, too, is an exciting industry.

The last then, of course, is the trucking and bus industry. And they, too, are very strong, very well supported. And the highways, although we have some bridge problems in the country, we know

what the bridge problems are, where they are, and we can manage around that for defense.

So all sectors of the industry are good. All sectors in the industry are growing and booming. And all sectors of the industry, within the military, are well-supported and growing as well, except for sealift. And the sealift issue is the one single thing that we have neglected. And when I say "we," all of us. I mean the Department of Defense, the government, the industry itself—it has been divisive and self-destructive. And we have got to put all that behind us, not look for the witches, and get on with it. We need some leadership, sir.

Senator BREAUX. I will tell my colleague from Mississippi that we have had the testimony of Mr. Creelman and Secretary Pyatt as well as General Cassidy. Do you have any questions?

Senator LOTT. Well Mr. Chairman, first, thank you for having this hearing, and I am hoping that as a result of this hearing and other hearings and other events that have been taking place this year, thanks to the encouragement of General Cassidy and Secretary Pyatt and Mr. Creelman and others, that we are going to actually come up with some legislative initiatives to deal with this problem.

I have said that to Secretary Pyatt and General Cassidy at other hearings. I am tired of talking about this danged thing. I have been in Washington 20 years. This is my 17th year as a Member of the Congress, House and Senate. We have been yacking about this while the numbers have been going down. It is time we take some actions.

I am really concerned about the problem, not just because I represent a shipbuilding area, but because of the implications I think it has for the military and for our need for a merchant fleet.

I am tired of talking about it, though. I want to know, what are we going to do? I realize a lot of the burden is on us, but we need every direction we can get from you and we need an administration to step up to this issue.

I remember when I first ran for Congress in 1972, Richard Nixon had a maritime policy. There was going to be an initiative. Congressman Jack Edwards from Mobile, Alabama came over to Pascagoula and said, we are going to rebuild our merchant fleet. Where is it?

So I would like for us to get going here. I apologize for missing your statements, but I am now missing part of a markup of the Armed Services Committee's defense authorization bill, and so I am going to need to go back to that pretty quickly.

Let me just ask a couple of questions, though. First you, Secretary Pyatt. I appreciate the job you have done at the Navy. You have done an outstanding job. You have helped, I think, with relatively limited resources, maintain our shipbuilding capability in this country and built it up. The second sourcing and third sourcing has been a positive factor and I just think generally you and the Navy have been doing a very good job. But do you view this merchant marine problem as a serious problem for our military and for our national security.

Mr. PYATT. Yes. When we saw the diverging trends between the requirements and what was going to be around, we took the RRF

force, carved some money out of the shipbuilding program and bought a bunch of ships.

You can say well, that was not enough. Well, it was what we could do, and because of it we were able to keep from deterioration the aggregate U.S. capability for deployment of unit equipment.

When you look at the charts that are in my testimony you will see the total is about constant. But when you look at the internal composition, you will find that,those ships that were in the private sector are now government owned, and I think that is a trend in the wrong direction. It is an action we took because it was expedient and necessary at the time to maintain unit equipment deployment, which is our first priority.

The other pieces of it, the Navy has done a lot of things to make existing commercial ships more useful in varied military operations. Buying the crane ships, buying adaptors, buying various things that better accommodate military operations than the existing commercial fleet.

But there is a limit, and I think what is being explored here this morning is, what is that limit and to what degree should we rely upon internal governmental resources versus national capability, and if the national capability had more existed, we would not have had to do that.

I think that we are at the same juncture in the containership capability right now. The charts show that for a period of time we have aggregate capability to support our goals, but as you look on into MarAd projections into the future—and I have no reason to challenge these—they show a rapid decline.

You turn around and you ask, why is the rapid decline? It is because they are not getting cargo. If you have cargo you can generate business; and then you start looking at some of the other commercial endeavors that I am aware of, and you find out that our containership operators do not even get the chance to bid on cargo. That is unfair.

I think there are a lot of pieces in it that are somewhat analogous to the issues the ship builders have raised on building ships. The market is so set up and structured that they do not get a crack at it.

Senator LOTT. Are you not concerned also that what we may have available in the future will not meet the needs of the military with the type of capability—the equipment that they could haul and that sort of thing—that will be needed?

Mr. PYATT. That is right. There are two different kinds of ships that we need. One is deployment of unit equipment and the other one is sustaining capability. Deployment of unit equipment is usually in terms best used as RO/RO ships. We had to go buy those. We had to go convert existing ships and now discussions are occurring around Capitol Hill, should we buy some more?

From what I can see, there is no real hope for a commercial market that would sustain this fleet. The ones that we bought, we bought because people could not get cargo for them. We walked into a fire sale and got some amazing bargains.

Senator LOTT. What about this—in the bill that we are marking up now, we have some funds for a sealift ship. I think that is the

way it is described. Exactly what does that do, and how is it going to fit in?

Mr. PYATT. I am not privy to the markup, sir. I do not know what is there.

Senator LOTT. Well, I thought you guys pretty much dictated that.

Mr. PYATT. I wish that were true, but it is not.

Senator LOTT. Let me ask you just a couple of things as far as competition, availability of ships. How do our shipyards now, in terms of labor costs, compare to shipyards in other countries like Japan and Korea, for instance?

Mr. PYATT. Well, the shipbuilders should answer for themselves, but my impressions are that in labor costs they are roughly competitive, on a man-hour basis, with Japan. Korea is far cheaper in terms of labor cost and material cost. The Japanese are losing a lot of business to Korea now, and there is not much at all going on in Western Europe.

The difference in Japanese-built ships, I think as people will tell you, is in not only labor man-hour costs but in number of hours required to make a ship, and the same revolution that has happened in building military ships has not happened in the United States in building commercial ships, because there has not been the market there to drive it. The years of subsidy made people sloppy, and so that is kind of what you are seeing.

Senator LOTT. General, you have made a lot of very positive suggestions. How much longer are you going to be in this position that you are in? Maybe I should not be asking this.

General CASSIDY. My retirement is announced for the 1st of October this year, sir. The Chairman will retire me on the 22nd of September.

Senator LOTT. Well, you have been doing an outstanding job. Can you get what we need done legislatively, or help us get it done administratively before then?

General CASSIDY. I may retire from the Air Force and take this uniform off, but I am so committed to this issue, I do not care if I am picking apples in an apple orchard, I am going to be saying things about this issue and I will be glad to serve anywhere that I can.

Senator LOTT. Your thoughts and recommendations, I believe, have been put in written form and are working their way through the Administration. What is the status of that now?

General CASSIDY. Well, sir, my first issue, of course, is the national sealift policy and the national sealift policy, as Mr. Creelman stated it, has just once again left the Department of Transportation.

I personally talked to Secretary Skinner and to Secretary Cheney about that. I have both of their support on that and I have an appointment to meet with Mr. Scowcroft about it next week once again, to keep pushing.

Senator LOTT. Do you anticipate—and maybe you cannot answer this, but do you anticipate that there may be a specific Administration package recommended as a result of what you have been working on?

General CASSIDY. I would certainly hope so. I would certainly propose that. I would like to be a part of that, because I think we have some solutions to put in that package.

Senator LOTT. We would like to be a part of that too, in a positive way. I would like to see you in the Administration come forward with some specific recommendations. If you do not, I think it is incumbent upon us to do it with or without you.

General CASSIDY. That, of course, concerns me, because I think it is our job to bring to you some recommendations for your support——

Senator LOTT. When are we going to get that?

General CASSIDY. I have to get the sealift policy signed first, and as I said I am going to talk to Mr. Scowcroft next week—I have an appointment with him—in trying to push that through.

Senator LOTT. We really need to get something like that early in the fall.

General CASSIDY. Sir, I would like to have it next week.

Senator LOTT. Well, that would be great if you could get it that quickly. I would be amazed if you do.

General CASSIDY. Well, that is what everyone has told me, but I am not giving up. I tried to have it by National Maritime Day. I failed on that, so we are just declaring another Maritime Day when we get this thing signed.

Senator LOTT. I do apologize for being late and having to leave early, but I am very much committed to this. Anything else?

General CASSIDY. Could I make one comment to you on RRF? Certainly I agree with what Secretary Pyatt has said. He has characterized the RRF correctly. The real main issue in RRF, it was a stopgap measure, as he has said. It is not the panacea for our problem.

There are two issues that must be looked at in the RRF. One is the age of those ships. Ships get old and they get older every day, just like senators and generals, and the age of these ships—the ships in that fleet now—is 24 years old, the average age of the RRF fleet.

Senator LOTT. That is almost as old as your airplanes.

General CASSIDY. Not quite. Almost, in some cases. As a matter of fact we broke one ship out for an exercise within the last couple of months and we had to go to Sweden to find an engineer who would know the engineering stations of that ship, because it was unique.

The point is, the character of all of those ships in the fleet is different and it is not an easy thing—I do not want to let you think that the RRF is the solution. It was a solution absolutely necessary, as Secretary Pyatt said, but the biggest issue of all—even after what I have said—is the RRF does not provide you the key ingredient in all of this, and that is sealift.

There are none of Mike Sacco's Seafarer International guys on those RRF ships at all. When we break one out we have to go to the union hall to get the guys to sail the ship. If there are not maritime ships ploughing the seas day in and day out, if there are not berths out there to put seamen against, there will not be seamen for the RRF when we need them. So the main issue we must not ignore is the requirement for people.

Senator LOTT. Thank you very much.

Senator BREAUX. Let me ask a couple of questions. We are talking about cargo preference. Mr. Sacco in his testimony will point out that when the U.S. Postal Service awarded the New York to Leningrad mail contract they awarded it to a foreign ship carrier. We cannot even ship our own mail through a government contract in a U.S. flag vessel. That really points out the problem we are talking about on this market share of the cargo.

How did the exercise go with Panama? We used a ship to get the troops over there. We only needed one ship, I guess. How did that work? I got all kinds of stories about problems of not having an adequate crew, not having an adequate troop-carrying ship to get the boys down to Panama.

General CASSIDY. It went incredibly well, sir. We moved most everything by air because we wanted it in there quickly for several reasons. One reason is certainly to show our intent and resolve and we did that quickly by air.

But we decided also that some of the heavy equipment that came out of Louisiana should go by ship, so we broke out in this case an SL-7, which is a ship assigned to the United States Navy and operated by civil servant sailors in the United States Navy.

Senator BREAUX. That was an RRF ship?

General CASSIDY. It was not an RRF ship. It was an SL-7. So the SL-7 was used—we only used about a third of the capacity of that wonderful big ship. We sailed the ship down there. We broke it out in about half the time that we leave ourselves to break it out. It steamed down there. As a matter of fact we had to slow it down to get it into the queue to get through the canal.

It is a great anecdotal story. We were saying, it is such a large ship and we had it available quickly so we selected it. It is such a large ship, there is no berth down there. One of the young sailors that works for me says, why don't we just drive it into the locks, raise or lower the lock to the level of the ship and drive off the side, and that is exactly what we did. Then we drove the ship all the way through the canal, turned it around and brought it back again.

By the way, we paid Mr. Noriega $75,000 for each transit. Nonetheless, we did it correctly and we did it quickly and it showed that the Transportation Command could bring to bear for the Chairman—for the National Command Authority—whatever kind of transportation was needed and do it quickly, and we did that, sir.

Senator BREAUX. On April 25th this year, Secretary Cheney and Admiral Crowe testified before the House Armed Services Committee and they touched upon the sealift requirements and Secretary Cheney said at that time, "We would have trouble making our commitment to have ten divisions in Europe within ten days of the outbreak of a conflict." Admiral Crowe said "The capacity to meet the ten division, ten day requirement is dismal. It is a disaster."

You know, that is coming from some very important figures in the national defense of the United States, saying it is a disaster, dismal. We would have trouble making our commitments. Does anyone want to comment on that, or do you agree with it, disagree?

General CASSIDY. I appreciate your putting that in the record, because there are still those in Washington that think that the prob-

lem does not exist. The problem certainly does exist, and with Mr. Cheney recognizing it and certainly Admiral Crowe, I think it is now a matter of record that indeed there is a problem.

Senator BREAUX. Mr. Creelman, the last time we visited you were acting. Are you still an actor?

Mr. CREELMAN. I am still an actor, yes. Some say a bad actor.

Senator BREAUX. You are not a bad actor. You are a good actor. We are glad to have you. But it is an indication of some of the problems.

You know, Cassidy is retiring after a very distinguished career. We do not have a head of MarAd, which is our key maritime agency. I have offered legislation to establish within the White House a Maritime Council—someone who can be at that level to advise the Cabinet and the President when they are talking about trade issues or defense issues, or any policy issues, how those issues affect the maritime industry. Do you have any thoughts about whether that would be helpful, General Cassidy?

General CASSIDY. Well, I certainly agree with you that if we are going to get direction in this, or if we are going to get movement in this, it is going to have to come from the top of the Administration.

Senator BREAUX. I get the impression that—I think Senator Lott and I have looked at this for so long—there are an awful lot of people who are very concerned about it at an upper mid level, but it has really never been at the top level.

People down here have been screaming for years and yet it has never been taken by the horns, so to speak, at the very top and said, we are going to do it—Republicans and Democrats alike. The candidates say great things. I have read the speeches of the candidates, both Democrat and Republican, and man, you could not say it better. But then after the election, it is gone.

That is a bipartisan criticism and the Congress, I guess is to blame too, because we have not come up with anything that we have been able to get agreed to by the Administration.

Mr. Creelman, again on your point, you said last time that they were going to notify you—at least had indicated such—in advance when the selection is going to be made, enough to give you some time. So that means some lead time before we find out who your replacement is going to be, if there is going to be a replacement or if you are going to be made permanent. You really do not have any indication of what is happening? Because we do not.

Mr. CREELMAN. No, Mr. Chairman. I have discussed the situation, as you suggested I do at your last hearing, with the Secretary and the Deputy Secretary, and I have no indication as to the timing of an appointment.

Senator BREAUX. It is really disappointing. We have tried every avenue. I just do not know what to do on this. Mr. Pyatt—Mr. Secretary—you say that there is not a need for investment in fast sealift technology and that the more effective route is to invest in prepositioned equipment. Can you comment on that a little bit?

Mr. PYATT. This is the outgrowth of an issue in the Armed Services Committee and really what we are trying to come to grips with is ways to move things quickly, and what this couple of pages of the testimony shows are the payoffs of the various changes.

If I can flip through here and get the numbers right, one of the points of discussion was whether we should go out and try to build a 60 knot SES cargo ship and what its yield would be. It is a difficult problem. The Navy has taken a couple of cracks at it in the past and had big problems. Or whether you should look more to a 30 knot ship of the SL–7 rough category for deployment purposes.

What this shows is that, moving from the days of 20 knot ships on the sea leg, you can from 20 knots to 30 knots going from mid-America to Europe you would reduce about 70 hours. Going from 30 knots to 50 knots you would reduce another 50 hours. But that still leaves a lot of mode changes and transportation in the U.S., collecting of the Army equipment that is necessary, as big time consumers.

We are trying to lay out, here is the overall system that you have to play with. It is our conclusion that if you are going to make changes in deployment capability quickly, then it is up to the Navy to make those changes. The most sensible investment is a 30-knot category ship of roughly an SL–7 characteristics. That was my testimony in the Armed Services Committee.

Senator BREAUX. Was that the approximately speed of SL–7, used for Panama?

General CASSIDY. It was, sir. That is the same conventional hull ship with very, very expensive to operate power plants, engineering stations. Yes, sir.

Mr. PYATT. We put gas turbines in a new design. But that is a ship we know how to build. It is no big struggle.

Senator BREAUX. It seems like other countries like Japan, for instance, are moving towards a fast sealift capability with some new designs and new hull type of innovations. Is it still under consideration whether we are not going to go in that direction, or not?

Mr. PYATT. Currently, there is nothing in the budget to build sealift ships. One of the observations that was made in prior testimony the general and I had was the relative imbalance of the airlift and sealift.

Again, this is I think a fallout of the tradition that the Air Force has built airlift and the Navy has not built sealift because they could rely on the commercial sector, and over the last decade we have been in this period of transition of having to go buy sealift ships for the first time.

Senator BREAUX. General Cassidy, what are your thoughts on this from the standpoint of national defense and transportation of those pieces of equipment and people?

General CASSIDY. I feel very strongly about the R&D effort that must be maintained in this arena, and I believe that we must have a level of research and development. We must fund a level of research and development to indeed stay with at least the world, or better than that exploit what I call Yankee ingenuity and our long suit with this technology.

So I think we are remiss by not having that and I have stated that to the Secretary of the Navy on several occasions and in writing. I think we should focus our intention on that sort of technology for these ships which have commercial application.

I think if we were to just design a ship for us or the Navy to operate, that would be incorrect and it would be much too expen-

sive and inappropriate. I believe we should focus our attention on some technologies that have commercial application so indeed they can be underwritten, eventually, in their ultimate goal of building them, by the commercial sector.

Once again, that is market share. I would even encourage some of our shipbuilding companies to get on the bandwagon of joint ventures. There are many joint ventures at hand in lots of industries in this country and there are ways to exploit the need for burden-sharing and joint ventures and all of those things together, if we can become creative about it, and that is what we need to do.

Senator BREAUX. Mr. Creelman, when we placed $3.7 million in our bill out of this Committee, as I remember it, for research and development in hull design, et cetera, did you not oppose that?

Mr. CREELMAN. The Administration position has been that R&D in this area should take place in the private sector to the greatest extent possible. We do have a small budget item, technical studies rather than research and development, which is a $1.5 million item.

Senator BREAUX. Is there any possibility that that type of R&D would be undertaken by the shipyards, considering their current economic conditions and status?

Mr. CREELMAN. We have all commented on the distress in the shipyard industry and it is unrealistic to expect the shipyard industry to undertake any expensive, long-term R&D projects.

Some of the technical societies which are supported by government and private industry, not just the shipyards but the carriers themselves, may be able to be a leader in that kind of effort.

Senator BREAUX. Do you philosophically disagree that that is not a legitimate area that we could be looking into from a government—to do that type of R&D?

Mr. CREELMAN. No, I do not. I agree that we should be. I agree completely with General Cassidy that we should be doing our utmost to stimulate forward-looking R&D so that we can be on the cutting edge of technology, not only in shipbuilding but in all areas of commerce.

Senator BREAUX. Well I think, gentlemen, we have had some good discussion. All three of you have made some good points that are well worth it. I would echo what Senator Lott said in the sense that it is truly time to act, and I think that your testimony can well be the base for our moving forward.

I particularly appreciate General Cassidy. This may be your last appearance before the Committee, and thank you for your very thoughtful suggestions and help and I look forward to your continuing work before you leave and perhaps even after.

This panel will be excused now. Thank you very much.

I would like to welcome our next panel, which will consist of Mr. Mike Sacco, President of Seafarers International; Mr. John Stocker, President of Shipbuilders Council of America; Mr. Bill Verdon, President of the United Shipowners of America. Mr. Stocker, do you want to go first, since your name was mentioned?

STATEMENT OF JOHN J. STOCKER, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. STOCKER. Thank you, Senator Breaux. Senator, if you do not mind, we have provided for the Committee a copy of our written testimony. We would like to have it introduced into the record.

Senator BREAUX. Without objection, it will be made part of our record.

Mr. STOCKER. My staff has prepared an oral summary of that. I have decided, as a result of the comments that were made earlier this morning, to dispense with that and get right on to the meat of the discussion.

Let me first of all say that there are many things stated by the panel this morning that I find myself in agreement with. However, there are many other things that were stated that lead me to believe that there still needs to be some discussion with the Executive Branch in regard to issues, particularly as they relate to comparative costs between U.S. and foreign shipbuilding and productivity. Let me address those very briefly.

Let me first of all say, Senator, that the Shipbuilders Council would not have filed its 301 petition unless it believed that it could in fact achieve a competitive basis with foreign shipyards. We believe that to be the case because we look at our performance in the naval side of the business which has been and continues to be beyond compare.

We build the finest warships in the world and there should be no conclusion reached that if we turn our attention to developing the commercial side of the business that we cannot achieve the same results.

In fact, as you well know, in the case of the Aegis ship that Japan is going to be building for itself, they are building a smaller destroyer than we are currently building and it is going to cost them almost $300 million more to build than what the larger version can be built for in the United States. That was an issue before the Senate last year.

Now, let me get onto the issue of productivity. The issue of productivity, which has been kicked around both on this side of the Hill as well as the other side and between ourselves and the Executive Branch, is widely misunderstood.

There are seriously methodological problems with attempting productivity comparisons between U.S. and foreign shipyards. Foreign shipyards, for example, subcontract out a substantial amount of the work that is done in regard to building a ship.

In the case, for example, of shipyards in Germany, we know that the subcontracted portion of work that is done is a very large percentage of the total man-hours to build that ship. That portion of work is never calculated into the man-hour estimates that are provided to government officials when they tour these countries and are told how phenomenally productive these yards are.

That is not to say, by the way Mr. Chairman, that these yards are not good. I mean, certainly they are very good shipyards. But it is just that they account for things differently than we do, plus they have had the ability to concentrate for a very long period of time on this particular part of the market in commercial shipbuild-

ing, particularly over the course of the last ten years, when we have been focusing most of our attention on building vessels for the Navy, particularly in the period since 1981 when subsidies were terminated in the United States.

However, the basic reason for productivity differences have to do with the fact of volume of business over this long period of time and the benefits that derive from that volume of business. That high volume of business, by the way, was largely initiated by the fact that their governments were willing to step in and provide them with the investment capability, the installation of new productive facilities frequently financed by either their central governments or their local governments, and we have never had that circumstance in the United States.

In short, I would say that one of the reasons that they are good shipyards and why they have been able to be successful in the commercial market, is because their governments have an industrial strategy in regard to shipbuilding, where we have not had a similar strategy here in the United States.

Let me just briefly mention that the productivity benefits of volume allow for sizeable capital investment in facilities, allows for continued development and refinement of production methodologies and techniques, planning methods, et cetera. It allows for and justifies significant expenditures for training of tradespeople—and I should add that it is exactly in these areas, because of the volume of business that we have been able to get from the U.S. Navy over the past few years, that we have been able to do that precisely in the Navy programs.

I am certain that Mr. Pyatt would agree with me that the manhours to produce a naval vessel have dropped dramatically over the course of the last few years and it is because of the volume of business that we have had.

So to simply sit here and say that we are high-cost producers, that we are not as productive as foreign shipyards, and simply leave it at that, is frankly not to address the question in such a way as to get to the underlying reasons for the differences between U.S. and foreign productivity.

I go back to my earlier statement by saying that the major reason for that is the volume of business that has been generated in foreign shipyards, and that volume of business is largely underwritten by the subsidy practices that those governments engage in in support of their yards.

Let me also address the question about labor costs. It was stated I believe by Mr. Pyatt that labor rates in the United States are below those of both Northern Europe and are now competitive with Japan. That is certainly true and is one of the economic conditions that leads us to believe that in the long run with the proper strategy we can be competitive in the world market.

Let me address the issue of South Korea. While South Korea continues to have labor rates that are below those of the United States, it should not be ignored that those rates have doubled and in some cases nearly tripled over the past 18 months.

I am certain, Mr. Chairman, you are well aware of the labor management difficulties in South Korea, and that situation remains very unstable and fluid. So it certainly would be incorrect to

state that in the long run we are not going to see some change in the relationship between labor rates in the U.S. and in South Korea.

This is not to say that the United States will eventually become the lowest labor rate producer in the world. I have had foreign shipyard executives who are interested in potential joint ventures with U.S. yards come to me and say one of the reasons they are interested is because of the fact that the United States does offer, by comparison to their own countries, low labor cost and I think that is a fairly fundamental shift that is not well-recognized here in Washington.

Mr. Chairman, I think I will conclude my responses to the issues that were raised earlier this morning and go on to say that we certainly have some very specific suggestions in regard to sealift. We see the sealift programs as essential for the development of the strategies that will be necessary to do what General Cassidy would like us to do.

Unfortunately, my only comment in regard to his controversial statements made earlier this morning is that in order to achieve the competitive basis that he would like to see us bring our Yankee ingenuity to is that there has to be a recognition of the realities that exist in the world market.

Again, that is the reason why we filed the 301 petition. We are not ten feet tall. We have done some things incorrectly that we need to improve. There needs to be further development in terms of capital investment. I might remind you, Mr. Chairman, that this industry has invested over $4 billion in their own plant and equipment since 1970 and we continue to do so, even in the light of the distressed market conditions as we see into the future.

We think that the basis for competitiveness can in fact be attained. It cannot simply happen magically. There will have to be a consensus of opinion between industry, the Executive Branch and the Congress on what it will take to make the industry competitive in the long run.

Again, we want to thank you for holding this hearing this morning and for I think creating the environment in which we can use the sealift programs as the engine for change in the U.S. shipbuilding industry.

Thank you very much.

[The statement follows:]

STATEMENT OF

JOHN J. STOCKER
PRESIDENT
SHIPBUILDERS COUNCIL OF AMERICA

Mr. Chairman and distinguished members of the Subcommittee, I am John J. Stocker, President of the Shipbuilders Council of America. The Council is the national trade association representing the shipbuilding, ship repair and marine manufacturing industries in the United States. Our membership represents approximately 95 percent of all new construction and repair work in process in the country at this time. A list of our members is attached to this statement.

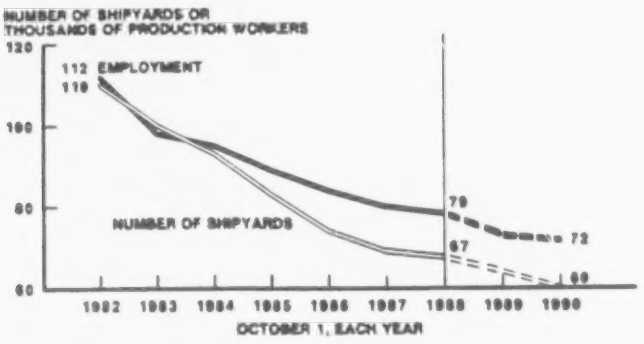
It is a pleasure for me to appear before you today to discuss the need for a national sealift policy and to describe for you the condition of our national shipbuilding industry.

Shipbuilding in the United States has, for all practical purposes, only one customer -- the U.S. Government, principally the U.S. Navy. Over 90 percent of our workload is derived from Navy contracts for new construction and repair.

This dependence on a single customer has largely occurred because of the collapse of the commercial shipbuilding market in the United States. Ten years ago, U.S. shipyards had 155 vessels under construction, half of those ships were for commercial clients. However, today there are no commercial vessels under construction. In fact, the last order for a commercial vessel was placed five years ago, in 1984, and the last vessel was delivered in November 1987.

The following chart illustrates the precipitous decline of the commercial shipbuilding market in the United States:

PRIVATE U.S. SHIPYARD BASE



The charge is usually made that the reason for the collapse of the U.S. shipbuilding industry's commercial market is due to the lack of competitiveness in the international market. Our response to that charge is to ask, by what measure can you calculate competitiveness in a marketplace distorted by foreign government shipbuilding subsidy practices? The commercial market collapsed in the United States because the Reagan Administration declared unilateral economic disarmament by terminating construction subsidies in 1981 without declaring war on foreign subsidy practices. How can you measure competitiveness when West Germany gives direct production subsidies to their shipyards and when public sector entities hold substantial equity positions in those yards? How do you measure competitiveness when, in Japan, the government approved the formation of a shipbuilding cartel for the purpose of jointly pursuing domestic and export orders and where financing is guaranteed by the government at interest rates as low as five percent? How do you measure

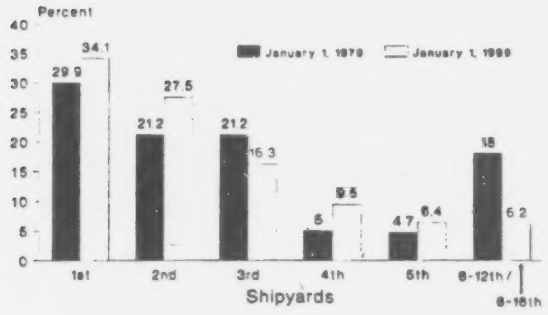
competitiveness when South Korean shipyards have generated well over $5 billion in debt at their four principal shipyards, largely as a result of their predatory pricing practices of the early 1980s, and the government has determined that it will assume the debt burden in order to keep the yards open? How do you measure competitiveness when the Norwegian government seeks to subvert American law, written to generate an American fishing vessel market, by offering two percent loans with extended repayment and grace periods?

How do American yards compete against those practices when the U.S. Government refuses to recognize the realities of the international market and sends companies out into the market to compete, not with foreign shipyards, but with foreign governments?

We cannot remain competitive in the face of these practices.

In early 1984, the U.S. Navy and the Maritime Administration (MARAD) issued a joint classified report which examined the ability of the private shipbuilding and ship repair sectors to contribute to a national mobilization base. The 1982 "Shipyard Mobilization Base Analysis" or "SYMBA" study identified 110 private shipyards as essential to the nation's mobilization requirements. As depicted in the following chart, 43 of those 110 SYMBA yards have closed leaving only 67 yards, or 60.9 percent, in operation today. We anticipate that by 1990 a further ten percent reduction in the base will have occurred.

Distribution of SCN Dollars to Shipyards By Percent of Total Contract Value



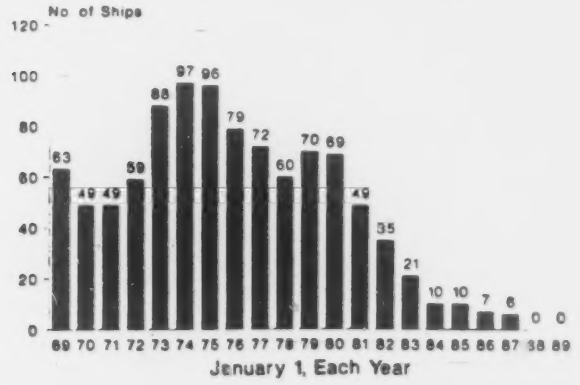
Thus, it is reasonable to conclude that the decline in U.S. shipbuilding capacity is attributable to the export of U.S. shipbuilding capacity to foreign countries.

The great irony is that this collapse occurred during a time period when the Navy was winning broad congressional and political support to rebuild its fleet to 600 ships. While it appears that this goal will not be achieved, it is true that the industry benefitted from the naval shipbuilding program of the '80s.

Naval vessel construction, however, emphasizes a very specialized shipyard. One that is capable of integrating complex combat systems with hull, mechanical, and electrical systems that are profoundly more technologically sophisticated than any commercial vessel operating today. As a result, the Navy was entirely accurate when it stated that it alone could not support the broad geographically dispersed and diversified industry necessary for mobilization purposes.

The data certainly supports this conclusion. Ten years ago, 25 yards were involved in naval or merchant construction. Today, only 16 private shipyards are involved in the construction of major seagoing ships and all of those are for the U.S. Navy. The following chart depicts the fact that five shipyards now hold over 93 percent of the dollar value of all outstanding Navy shipbuilding contracts in the private sector. The remaining eleven yards are trying to survive while competing for a share of the remaining 6.2 percent of the marketplace. By comparison, seven yards in 1979 were competing for the marginal 18 percent of the Navy workload. With few new Navy programs envisioned over the five-year plan, the prognosis for those yards is not good.

New Merchant Vessels Under Construction
Or On Order at U.S. Private Shipyards



In a December 13, 1988 letter to the House and Senate Defense Appropriations Subcommittees, the former Secretary of the Navy stated that the Navy's Shipbuilding Production Base Analysis (SPBA) indicated that in a conventional war scenario:

> "New construction requirements however cannot currently be met because of inadequate shipyard facilities, insufficient labor capacity, and the inability of supporting industries to fully satisfy shipbuilder demand for equipment. Although the shipyards have facilities to construct 51% of the required vessels, the limitations of labor and supporting industry drive ship deliveries down to 34% of the requirement."

As bad as the shipbuilding and ship repair industrial base may be, the national infrastructure of manufacturing firms supplying components which are integral parts of both commercial and naval ships may be in worse condition. Across the broad spectrum of machinery including turbines, diesel engines, gears, valves, castings and forgings, delivery lead times are increasing and the number of companies bidding on such work is rapidly decreasing.

Can this problem be solved?

The answer is a resounding "YES!" What distinguishes the United States from our international competitors is the lack of an industrial strategy that will allow American shipyards to emerge as a competitive force in the international market. The Council's Shipyard Recovery Program is intended to lay the conceptual framework to make the articulation of a strategy possible. We believe a partnership between industry, labor, and government is essential to the industry's recovery. Our goal is not to recapture nine percent of the world commercial market we held in 1979, but two to three percent, which would fully utilize existing, not expanded, U.S. capacity.

The elements of the recovery program are:

1. The U.S. Government should place the elimination of foreign shipbuilding subsidies high on its trade agenda. To

this end, I want to thank you, Mr. Chairman, for your support of our Section 301 trade petition.

2. Shipyard management and labor would make a commitment to focus on the production process to improve productivity through new capital plant investment and new approaches to work organization.

3. Given the industry's present financial condition, government support for commercial research and development focusing on new production improvements and new ship designs is absolutely essential. Our competition has extensive government support, and we need to foster new thinking about the future. The FY'90 Maritime Administration Authorization Bill, as passed by this Committee, includes funding to start this process. The Council appreciates your efforts in this area.

4. Our goal of achieving international competitiveness through new capital investment, new training and work methods, and research and development to create a product attractive to the shipowner, can only be achieved by the existence of a program that will allow for the amortization of capital investment. Almost every Commander-in-Chief of the Unified and Joint Commands has testified before Congress on the need for military sealift. Sealift programs will generate the short-term returns that can guarantee the long-term future of American shipbuilding. The funding of a sealift program, can solve both the defense sealift shortfall and put into place the short-term program that will lead this industry to the international market.

A sealift program can be established in such a way that program performance emphasizes productivity achievements, cost reductions, and product development. If the program is to be developed, the industry would make the commitment that in return for program support, we would establish clear guidelines to modernize plants, reduce man-hours to construct, and shift our attention to the needs of commercial owners in a manner similar to the improvements American steel manufacturers have made in response to the Government's support of the VRAs. In other words, there should be a clear quid pro quo. This is a partnership; a strategy; not a subsidy.

This Committee and others in the Congress have heard testimony on our shortfall in sealift from a wide range of civilian and military leaders. The Administration and the Congress have an opportunity at this time to begin to resolve both the sealift and shipyard problems. We propose that the following steps be undertaken as soon as possible:

1. Build Replacement Sealift Tankers - The Military Sealift Command is presently operating nine Sealift Class tankers built in the early 1970s. These ships do not meet the requirements of the Port and Tanker Safety Act that requires that they have a segregated ballast system. To modify the tankers to meet the requirements would result in a significant reduction to their cargo-carrying capacity. The Navy has discussed replacing these nine tankers with up to six newly constructed ships. There are several excellent tanker designs currently available which could be utilized for this purpose.

2. Large Monohull Sealift Ship - In a March 22, 1989 cover letter forwarding the Navy's Fast Sealift Program Technology Assessment sent to the chairmen and ranking minority members of the House and Senate Armed Services Committees, former Secretary of the Navy, William L. Ball, III, noted that: "It would certainly be possible to make a very modest redistribution of transportation funds to initiate a monohull program based on in-service technology. This would increase our fast sealift capability, provide immediate work to the maritime industrial base hard pressed by lack of commercial shipbuilding, preserve a sector of the maritime industrial base that might otherwise not survive, and provide improved capability in the relatively near term."

The Council recommends that monies be appropriated in the FY 1990 Department of Defense Budget for engineering design and construction of a fast monohull sealift ship. This ship would have a lift capability similar to that of an SL-7 and would match its impressive speed. Order of magnitude estimates for the lead ship are about $30 million for detailed design and about $200-250 million for lead ship construction. Follow ships would cost in the range of $200-225 million. According to Vice Admiral Stanley Arthur, Deputy Chief of Naval Operations for Logistics, a squadron of 10 to 20 ships of this class is considered initially adequate.

3. Fast Sealift Ship of the Future - Research and Development funding is required for a ship design of the future that can meet the military surge requirements and be commercially viable. The research effort needs to focus on

hull design and propulsion technologies to produce a 25,000 ton ship with a speed capability in excess of 40 knots.

Mr. Chairman, we believe these programs are the minimum necessary to begin to redress the growing sealift shortfall in the Nation. These programs, combined with trade negotiations, will provide the impetus for investment in plant modernization and production processes that will allow U.S. shipyards to be competitive in commercial ship construction in the world market. This country's shipyards are a national asset which should not be allowed to fade away.

Senator BREAUX. Thank you very much, John. Mr. Verdon?

STATEMENT OF WILLIAM P. VERDON, PRESIDENT, UNITED SHIPOWNERS OF AMERICA

Mr. VERDON. Thank you, Senator. We have submitted our testimony and we ask that it be made a part of the record and I would like to take the few minutes allotted to me on behalf of USA this morning to summarize our problems.

I think the first thing we recognize is that the time for platitudes is over, as you indicated in your questioning to General Cassidy, and point out some very specific facts.

Fact one is that we represent the U.S. liner carriers. That is seven liner carriers left in the U.S. fleet. We represent 101 liner vessels. That is it in the international fleet.

We are not a normal commercial operation. Although we are cloaked in a commercial robe, we do have governmental functions. They are those functions set forth in the Merchant Marine Act of 1936: one, to be a military adjunct in a time of a national emergency, and two, to be an economic adjunct in that we move the export and import goods in and out of the country.

As such, it has to be recognized that we are playing in the international arena and we want to be competitive and we want to earn a profit, both of which are the mainstays for attracting others into the business and building that base up. We have to be able to play on an equal footing.

The problem is fourfold as we see it. One is vessel parity, two is crew parity, three is operational parity and four—and probably most importantly—is one system for the seven remaining U.S. flag liner companies.

Let me just touch upon each of those and to put some meat on it. What we mean when we talk about crew parity, if a U.S. flag company with 20 vessels is the most efficient company there is, the most innovative company there is and does everything that they are supposed to do, on January 1 of a given year it starts out in the hole $40 to $50 million behind 82 percent of its competitors.

We now carry 18 percent of the trade in the line of business in the U.S. flag bottoms; 82 percent is the foreigners. Their crew costs

are generally, on a 20-ship modern fleet, about $40 to $50 million better than we are. Therefore, if they make a small profit, we have a large loss. If they have a good year and make $60 million, we just about break even.

Secondly, on the issue of vessel parity, we are in the unique position in that ODS operators today cannot build vessels that will allow them to compete in the world marketplace. They cannot build in the United States because of the excess costs without CDS and they cannot build foreign because of the current governmental regulations.

Even if they had the wherewithal to build in the United States and even if they could find a banking institution willing to finance it on a 20-ship merchant marine company, they would be talking about a differential of over $1 billion.

Now, I am not specifically saying it is a billion or $900 million. I do not think the numbers are really important. What is important, Senator, is the relationship and the ratio of the difference. If the ships cost twice as much, or 1.7 times as much, the fact is either one of those cases is a sure road map to bankruptcy. You just cannot do it.

The third problem that we are faced with is the fact of operational flexibility and operational equality. Today, 82 percent of our competitors can go where they want, when they want, in a given situation and follow the cargo. Our fleet cannot do that.

Indeed, under the rules that we have today, if a company—Company A, decides to put—a U.S. flag company decides to move some ships into an ocean where there is cargo at that moment, what happens is, because of the two-tiered system that we have, instead of the remaining American companies doing what we should do under our system, and that is figure out how to best compete, what they do is to call their lawyer and say, file a protest.

That has resulted in tens and tens of millions of dollars in the last ten years of litigation between the two sets of U.S. flag companies, and that leads to the fourth priority and I think—or maybe the first priority that has to be resolved and that is, the sad thing is that with seven liner companies left, we have two distinct, discrete systems, one ODS and one non-ODS.

That results from the fact that in early 1981 the United States Government in effect ended all subsidy programs as we know them. CDS was put on the back burner and frozen and ODS, although no one says it—they say ODS is still alive—it really is not. It is in a going-out-of-business mode.

ODS was ended. There have been no new ODS contracts since 1981 and all that is happening is that the government is living up to its contractual obligations and paying off the existing ODS operators.

If we do not get a solution to the vessel parity program, what will happen when the vessels reach the end of their economic usefulness? That is coming in the next three years for at least one of our liner companies. They will put their ships on the scrap heap, lock their doors, or they will purchase new vessels, forego ODS and be foreign-flag vessels. That is in effect the death knell of the U.S. flag merchant marine.

When we talk about the U.S. flag what we really mean is not necessarily the U.S. corporation that owns it, or the stockholders that own it, what we really are talking about, Senator, is the crews that crew it, because it is the U.S. citizen crews that make it possible that there is some comfort for the military that they will be there if and when they are needed, no ands, ifs or buts about it.

With that in mind, I would like to point out also there has been a myth that I have heard in this town since I have been representing USA for the last 18 months and that is, well, if we can get you a build foreign bill, or we can get a CDS program that would make a cost parity and allow you to build, would you really build?

I think the best way to answer that, Senator, is to look at what happened in 1981 when we had the ability to build foreign. 32 U.S. flag vessels were put into the marketplace that had not been there. That represents 33 percent of our existing capacity, over 50 percent of the carrying capacity, and indeed, but for that ability to build foreign when the entrepreneurship of the U.S. flag carriers shone brightly, we would have about 65 ships instead of 101 ships.

We would carry about 8 percent instead of 18 percent, we would have no U.S. flag capacity in South America, where we now have Crowley Maritime serving there.

We would have no new U.S. flag company such as the one that is operating Top Gallon in the North Atlantic with new ships that were built, and the ships that we would have would have been the oldest steam engine ships around with no new ships.

Now, what is the solution? You mentioned that you have been here for 17 years and Senator Lott for 20 some odd years. I have been here a little less. But you are right, people talk about it and talk about it. We, on behalf of the U.S. flag merchant liner carriers, are committed to come up with a program and we hope that when Congress reconvenes in the fall term we will have a specific program articulating the issues that are mentioned here this morning.

We hope to be able to work with the Administration, labor and indeed the shipbuilders, recognizing that the entire U.S. merchant marine industry has to be revitalized. I thank you for giving me the opportunity to present those views and will be ready to answer any questions you have for me.

Thank you, Senator.

[The statement follows:]

STATEMENT FO WILLIAM P. VERDON, PRESIDENT, UNITED SHIPOWNERS OF AMERICA 1/

Good Morning.

Thank you for the opportunity to appear today to express the views of the United Shipowners of America (USA) regarding national sealift policy, capability and concerns. USA is a national trade association whose members own and operate over 97% of this nation's U.S.-flag international liner capacity. Accordingly, all of our following comments will be limited to the international liner fleet.

The Armed Forces of the United States, as a matter of basic policy, rely upon the commercial U.S.-flag merchant marine for much of the sealift that would be required to support military operations beyond our shores. While all types of shipping are needed in a national emergency, the military relies primarily on common carrier, liner type ships and product tankers. Today, there are only 101 such U.S.-flag vessels engaged in international trade. Repeated studies by the Department of Defense have concluded that this fleet is inadequate to support defense contingency plans. Indeed, as then Secretary of the Navy John F. Lehman, Jr. stated on December 3, 1986, the size of the U.S. merchant marine is "the greatest glaring deficiency" in the United States ability to wage war overseas. This means that much of our vast military strength cannot be effectively utilized.

The members of this Committee, and other national leaders have recognized the impending sealift crisis for more than a decade. Months of hearings have been held, and a small library of studies conducted in search for a solution. Up to this time there has not been a national consensus on how to solve the problem in an effective and economic manner. The growing frustration induced the Congress in 1986 to organize the Commission on Merchant Marine and Defense

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1/ The exhibits to the statement were not reproducible.

which, after exhaustive studies, concluded once again that, "... there is clear and growing danger to the national security in the deteriorating condition of America's maritime industries."

Today's hearings are particularly timely because we perceive that there is now a consensus in knowledgeable segments of the government and industry that a solution must be quickly found and adopted, or the U.S.-flag liner shipping industry will quickly decline below the present 101 ships and the base necessary for its rebuilding may thus be lost.

The Chief Executive Officers of the USA member companies made a personal commitment early this year to develop a solution to the liner industry problem that was economically reasonable, operationally feasible, and fair to all members of the industry. We are very near to an agreement for presentation to this Committee and other national leaders.

As we studied the problem, it was apparent early on that the time had come to stop crying over spilled milk and lamenting the days after World War II, when the United States owned over half the major liner vessels in the world, and our ships carried over 50% of U.S. seaborne trade. There is however one real lesson to be learned from the inexorable decline from 4,000 U.S.-flag liner ships in 1945 to 101 in 1989, and that is that the arrow is steadily downward, and unless something meaningful is done, we will simply not have a significant fleet in the near future.

The fact that our fleet is down to 101 ships is certainly depressing, but it must be kept in perspective. Some of these ships are the largest liners in the world, and many of them are at the cutting edge of cargo handling, pro-

pulsion and operational technology. At the present time we are carrying just over 18% of U.S. seaborne liner trade. While this is not where we should be, it is nothing to be ashamed of considering the U.S. government policy and economic and operational constraints we have had to operate under in recent times. Indeed, 18% under adverse conditions augurs well for the future once we solve the problems discussed herein.

In planning for the future, we must be realistic about what can be achieved and recognize that visions of once again carrying 40-50% of the commercial cargo of the U.S. are only wishful thinking. We carried half of our own trade only at a time when many of our trading partners were physically devastated following World War II, and when there was a totally different competitive marketplace. At that time there were no strong Japanese, German, Korean, or Taiwanese merchant shipping companies, and fewer large state owned fleets from the communist nations. Indeed, the fact that these and other nations have progressed to strong interdependent participants in world trade, is a tribute to the free trade policy of the United States. The strength of foreign fleets is an obvious indication of the perceived value of the national maritime industry by other major nations. These fleets have had consistent, direct and indirect support from their goverments since the end of World War II. The success of American free trade policy makes it logical that the U.S. will no longer be able to corner the market in international shipping, or in other services and goods. We can only hope to achieve a fair and reasonable share. When this truism is in place and out in the open, we can finally begin to realistically address the maritime problem, and seek workable solutions. While it may be impossible to dominate as we once did, it is not far-fetched - and indeed, it is imperative -

to have as our goal the stabilization and maintenance of what we have. Once this is done, we will have a base upon which to realistically grow until we carry a fairer share of the cargo in competition with other carriers.

Once the slide to oblivion is halted, and we can demonstrate to the marketplace that there is stability and an ability to earn a fair return on capital investment, the industry will be able to attract the capital and other resources required for growth.

The economic fact of life in the international shipping environment is that an aggressive, competitive and well managed U.S. liner company can be successful only if it has the ability to keep its major costs on a parity with those of its foreign competitors. U.S.flag liner carriers have two unique cost problems that must be aired. These problems cannot be solved by the companies alone because in effect, they have been imposed upon the carriers by U.S. law and policy.

LABOR COST PARITY

When we say that we are U.S.-flag carriers, what is it that we mean? It is not simply that we are U.S. corporations or that all or a majority of our stockholders are U.S. citizens. As you know, there are shipping entities that meet these criteria and they are not U.S.-flag companies. In our case what it does mean is that (i) we will definitely be there to assist the U.S. military in time of national emergency - no ifs, ands, or buts about it, and that is so because (ii) U.S. citizens man and operate our U.S.-flag ships. In the ultimate sense, the U.S. citizen crews are what makes a ship truly U.S.-flag. These men and women are what create stability and allow our ships to be meaningfully used for military contingency planning.

We prefer using these U.S. citizen crews, but it must be recognized that U.S. liner companies in a vacuum would, in order to compete with foreign carriers, be forced to seek the lower costs that would result from hiring non-U.S. citizens to man our ships, which are in direct and continuous competition with ships from scores of countries. These foreign ships, including those of our NATO allies and even the Japanese, are increasingly manned by non-national crews from low cost labor countries.

Any reasonable businessman would never voluntarily set up a company wherein his costs would be more than those of his direct competitors. Thus if decisions were driven by purely economic considerations, our crews would be foreign in order to make us cost competitive.

Since U.S. law requires the use of citizen seamen on U.S.-flag ships, we are not free to hire foreign crews, nor do we wish to do so. However, the government must recognize that if it insists, for national defense reasons, that we have citizen crews which will be responsive in time of emergency, it must contribute to the added cost.

It is both equitable and necessary that U.S. crews be paid more than our competitors' crews. This is simply a function of our U.S. standard of living, and when measured against the rest of the U.S. industrial base, our citizen crews are paid a fair and reasonable wage. However, this results in a major economic impact on the operator. For example, a U.S.-flag liner company with 20 modern automated diesel vessels with 21 man crews starts off at a disadvantage each year of $40 to $50 million for its fleet. Thus, if an American operator is exactly as competitive and efficient as his foreign competitor with 20 similar ships, he will lose $40 to $50 million per year when the foreigner breaks even.

In summary, since our major costs must be equivalent with foreigners if we are to compete in international trade, it is essential that our government adopt a program to equalize crew costs for all U.S. liner companies willing to fly the U.S. flag. It is simply a matter of a quid pro quo consideration - we employ citizen seamen for national defense reasons, and the government pays the cost differential.

VESSEL COST PARITY

The second cost problem relates to our need to have modern, efficient vessels which are competitive on a world market basis and to acquire such ships at essentially the same capital cost as our foreign competitors. However, U.S. carriers who receive wage parity payments, Operating Differential Subsidies (ODS), are required by their contracts to build ships in the United States. When these contracts were signed, it was understood by both parties that vessels were more expensive to build in the United States and that the government would make up the difference through the payment of Construction Differential Subsidies (CDS) to U.S. shipyards. For reasons completely unrelated to U.S. ship operators, the government decided in 1981 that it would no longer pay construction subsidies to U.S. shipyards. Since it costs two or three times as much, and takes two or three times as long to build in the U.S. as in a foreign yard, no new orders for internationally trading liner ships have been placed in a U.S. yard since 1979. The cost differential makes it impossible to replace the fleet, let alone add to it by building in the U.S.

The U.S.-flag liner companies receiving ODS as the needed quid pro quo for employing citizen seamen cannot continue to be penalized by requiring that they

build in the U.S. even when CDS is not available to shipyards. Indeed, no financial institution would seriously consider lending money where a company's debt for capital assets would be at least twice that of 82% of its competitors - and that would be the effect of lending money to build in the U.S., because 82% of our liner trade is carried by foreign flag ships.

Not being able to build in the U.S. - and that is where we are today and have been for 10 years - and not being able to build or buy foreign, is a death knell for ODS carriers, who are slowly going out of business. It is not a question of if they will survive, but only when they will all disappear from the U.S.-flag register.

The only current alternative to this vessel replacement problem would be for an ODS company to acquire its ships on the world market and forgo ODS on those ships. However, as we discussed above, this would result in a typical company having labor costs of approximately $2.1 to $2.6 million a year per ship more than an equivalent foreign competitor.

Thus, if the U.S. government is not willing to subsidize U.S. shipyard construction, it is essential that all U.S.-flag liner vessels be statutorily qualified to participate in the ODS program. This will not do harm to U.S. ship-yards, for as the past decade has proven, no one can or will build ships in the U.S. for the foreign trade without shipyard construction subsidy.

WHAT IS THE SOLUTION TO THE LABOR AND VESSEL COST PARITY PROBLEMS?

USA members believe that we must construct a program that will allow all U.S.-flag liner companies to compete on an equal footing with foreign flag

lines, by achieving cost parity with foreign lines for crew and vessel capital costs. We need one system, so that the remaining 7 liner companies can all operate under one program, rather than the present bizzare system where some companies have rough equality of crew costs but not vessel costs, and others have parity of vessel costs but not crew costs. All carriers must have parity with foreign operators in both of these major cost areas if they are to operate U.S.-flag ships.

One system for all will go a long way toward bringing harmony to the U.S.-flag industry and in ending the continuing legal battles, whose genesis is the divisive system, which has conservatively cost liner operators over $50 million in legal fees alone during the past 10 years. A single system will result in competition being returned to the marketplace and taken out of the court room. In addition, it will permit U.S. carriers to work together in space sharing and other agreements rather than having to seek foreign partners as at present.

We have been drifting for over 10 years, while other nations have been moving forward. There is a recognition in the rest of the world that liner ships are hybrids, having both military and commercial importance. They recognize that these fleets are the backbone of the ability of a nation to import and export goods, while simultaneously serving as an adjunct in waiting to be available in times of national emergency.

Recognizing the importance of their merchant marines, most of the rest of the world is going in the opposite direction from the United States, and providing increased forms of assistance. They also recognize that there is no more logic to coupling their ship operating and shipbuilding industries, than there

is in coupling airlines and trucking companies with the manufacturers of planes and trucks.

Instead of freezing operating subsidies and proceeding on a going out of business basis, other countries are expanding and implementing many forms of operating subsidies to shipping lines. Typical types of operating subsidies are (i) government direct loans for ship construction, (ii) low interest loans, (iii) loans with extended grace periods, with no principal or interest payments, (iv) special depreciation rules, (v) other tax advantages, and (vi) direct purchasing of redundant or obsolete facilities. In this regard I commend to your attention a recent analysis prepared by the Transportation Institute entitled, "Assistance Given By Nations Of The World To Their Merchant Fleets". For too long there has been a pervasive feeling in certain quarters that there was something wrong in the U.S. lending assistance to its merchant marine, and that we were unique in doing so. This report makes it clear that the rest of the world is doing more than the U.S., and does so without making apologies. It's time for the United States to recognize that we have to get in step with the rest of the world, and that if we want a national merchant marine we will have to pay the price for it.

As I noted at the beginning of this statement, the Chief Executives of USA are personally committed to developing a fair, economic, and effective program to equalize crew and vessel capital costs, and begin the revitalization of the industry. We plan to have a detailed program available for presentation to the Congress in the very near future.

OTHER PROPOSALS FOR FLEET REVITALIZATION

Providing crew and vessel capital cost parity is fundamental to the survival of the remaining U.S.-flag liner fleet. However, cost parity is not sufficient to ensure fair rules of international competition or the profitability necessary to attract new investment. In order to address these problems we have prepared three proposals, which I would like to submit herewith for the Committee's consideration. We look forward to discussing these in detail over the next few months with the Congress and the Administration, so that hopefully they can be implemented as appropriate:

Military Sealift Command Procurement Reform. The Commission on Merchant Marine and Defense concluded that current MSC procurement policies have contributed to the decline of the U.S.-flag liner fleet, and consequently to the detriment of the Department of Defense's sealift and national defense needs. Those policies focus solely on achieving short term cost savings, without regard to the adverse impact they have on the long term viability of the U.S.-flag merchant marine and on the nation's emergency sealift capability.

The Commission, in recognition of the adverse effects caused by current practices, recommended that the present method for solicitation for procurement of ocean transportation services be changed to a stable rate system based on the established tariff rates used for commercial shippers. USA concurs in the need for liner service procurement reform, but believes that a prudent course of action would be to adopt the relatively modest modifications to MSC's current competitive procurement policies proposed in the attached paper, Exhibit 1. Currently we are in the process of discussing our recommendations directly with Vice Admiral Butcher, the

Commander of the Military Sealift Command. These talks have been constructive and hopefully we will jointly be able to agree on some badly needed changes in the current system.

U.S. Shipping Tax Reform. The ability of U.S.-flag shipping companies to compete in the international shipping market and, ultimately, to exist at all, depends entirely on the ability of those U.S. carriers to match their foreign competitors cost of doing business. An integral component of the cost of doing business is the impact of tax burdens. Specifically, the tax burdens imposed on U.S.-flag shipping companies demand a close scrutiny of the methods employed in determining the appropriate tax regime under which U.S. companies operate, as compared with their foreign competitors.

A proper determination of an appropriate tax regime for U.S.-flag shipping companies in foreign commerce cannot be made by reference to the taxation of U.S. domestic activities, or even by reference to U.S. taxation of foreign activities, other than shipping.

The foreign competitors of U.S. shipping companies pay little or no tax to their home countries. Conversely, in the Tax Reform Act of 1986, certain favorable tax provisions for U.S.-flag carriers were removed, with no reflection upon, and in spite of, the reality that most nations in effect do not tax international shipping.

USA believes that to revitalize the U.S. merchant marine, restrictive and burdensome tax policies which increase the cost of operating a shipping business in the United States, and make it less competitive, should be revoked or modified. Accordingly, we recommend the changes to the Internal Revenue Code set out in the attached paper, Exhibit 2.

Review of The Shipping Act of 1984 - The Section 18 Study. Section 18 of the Shipping Act of 1984 requires the Federal Maritime Commission (FMC) to ascertain the impact of the Act during the five year period ending in March, 1989. The FMC has been collecting and analyzing data, and will submit its report to an Advisory Commission on Conferences and Ocean Shipping in September 1989. Twenty-seven U.S. and foreign flag liner shipping companies serving U.S. trades have prepared a set of position papers addressing key issues under review by the FMC in its study. It is our hope that the Commission will find these papers useful in clarifying the issues of concerned carriers generally, as well as in developing its own conclusions and recommendations. For the information of the Committee, we are enclosing herewith as Exhibit 3, a copy of the "Ocean Common Carrier Position Papers on The Shipping Act of 1984", submitted to the FMC March 20, 1989.

CONCLUSION

During recent discussions of national maritime policy, three questions have been asked which we believe are sufficiently important to warrant brief discussion. Accordingly, we have included an Appendix to this statement which briefly addresses the questions: (i) Will authority to build foreign result in construction of any substantial number of U.S.-flag liner vessels; (ii) Do container ships have military utility; and (iii) Why can't the United States rely during an emergency on stockpiled government owned ships, or foreign flag ships it might acquire on the world market.

We trust that this hearing will be prologue to further hearings to address specific legislative proposals during this Congress. If the decline of the U.S.

liner fleet below 100 ships is to be halted and rebuilding begun, action is essential before more companies are lost and the base further eroded. We look forward to working with the Committee in this regard.

I would be happy to attempt to answer any questions which members of the Committee might have.

Senator BREAUX. Thank you, Mr. Verdon. Mr. Sacco, we are glad to have you here.

STATEMENT OF MICHAEL SACCO, PRESIDENT, SEAFARERS INTERNATIONAL UNION OF NORTH AMERICA

Mr. SACCO. Mr. Chairman, my staff has provided you with a copy of my statement. If I may, I wish to submit it for the record of the Committee.

I have listened to the discussion. This is my first time to testify at a hearing and I have really enjoyed listening to the discussion thus far. I have listened to all the numbers and figures and facts that surround this industry—the decline of the fleet, the growing manpower shortages, both in vessel operations and in the shipyards.

As you said, Senator, you have been in Congress for 17 years. You have heard facts these figures. You have been through many studies and how many hearings and you have listened to the same thing over and over and over again.

The problems that slow down to the development of a national, sealift policy also hinder the development of the U.S. flag merchant marine. That is, like everyone has said in this room today, we lack national direction and commitment from the highest levels of government.

Now, the record indicates that the Congress understands the need for the merchant marine. In my opinion, without congressional vigilance, we would not have the 387 active ships in the fleet today. Generally, whatever has been done to promote the fleet has come from the lead of the U.S. Congress.

National administrations, regardless of their party, have failed to act in a proper manner. In the last 50-odd years I can only remember Presidents Roosevelt and Nixon taking an aggressive stand. No major piece of legislation intended to increase the size of the commercial fleet has been enacted since the Merchant Marine Act of 1970 when the Nixon Administration took the lead in promoting passage of this measure.

Prior to the enactment of the 1970 act, the last previous piece of legislation providing for a constructive promotional program was drafted with the full backing of the Roosevelt Administration. Each one of these administrations recognized the value and the role of a strong American fleet and appointed people who carried out that commitment.

In all other administrations there have been the usual Maritime Day pronouncements of the importance of the industry, but nothing else. That is why we are here today. Unless we are successful

in getting the President and his closest advisers to commit themselves to a merchant marine which is consistent with our national security needs as a world power and principal trading nation, we will see even further deterioration of our shipping capability.

The most effective thing that this Congress can do to correct our deficiencies is for the Congress to work with the administration in formulating the necessary remedies. It need not be a complicated problem, unless we want to make it one. But once we put it together, Senator, I am sure that everything is going to fall into place.

It is clear this is a bipartisan matter deserving a bipartisan solution. I hope that this committee will pursue this line of thought and succeed in meeting this challenge. Based on the comments that I have heard here today, I think everybody is saying the same thing, Mr. Chairman: the time for study is over; the time for action is now.

[The statement follows:]

STATEMENT OF MICHAEL SACCO, PRESIDENT, MARITIME TRADES DEPARTMENT, AFL-CIO

Mr. Chairman, members of the subcommittee:

My name is Michael Sacco. I am president of the Seafarers International Union of North America, representing unlicensed seamen employed on vessels in the nation's domestic and international commerce. I am also president of the AFL-CIO's Maritime Trades Department, a constitutional department comprised of 43 national and international unions representing over 8.5 million workers. I appreciate this opportunity to comment on the implementation and enforcement of a National Sealift Policy, and I commend the subcommittee for convening this hearing on a subject of extreme importance to our national interest.

At this point in the hearing you have heard all of the facts and data surrounding the state of the industry, the decline in the size of the fleet, and the growing manpower shortage, both in vessel operations and in our shipyards. In lieu of repeating these facts, allow me to make some critical observations.

The problems which impede the development of a national sealift policy also hinder the development of the U.S.-flag merchant marine. That is, we lack national direction and commitment from the highest level of our government. The record indicates that the Congress understands the need for a merchant marine. Without congressional vigilance, we would not

been done to promote the fleet has come from the lead of the U.S. Congress. National administrations, regardless of party, have failed to act positively.

In the last fifty-odd years, I can only remember Presidents Roosevelt and Nixon taking an aggressive stance. No major piece of legislation intended to increase the size of the commercial fleet has been enacted since the Merchant Marine Act of 1970 when the Nixon Administration took the lead in promoting passage of this measure. Prior to the enactment of the 1970 Act, the last previous piece of constructive promotional legislation was the Merchant Marine Act of 1936, which was drafted with the full backing of the Roosevelt Administration. Each of these administrations recognized the value of a merchant fleet and appointed people who carried out that commitment. In all the other administrations, there have been the usual Maritime Day pronouncements on the importance of the industry, but nothing else. That's why we are here now.

Unless we are successful in getting the president and his closest advisers to commit themselves to a merchant marine which is consistent with our national security needs as a world power and the principal trading nation, we will see even further deterioration of our shipping capability.

The most effective thing this Congress can do to correct our deficiencies is to develop a mechanism wherein the Congress can work with the administration in formulating the necessary

remedies. It need not be a complicated problem, unless we choose to make it so, and once put together, everything else will fall into place.

The challenge is clear. It is a bipartisan matter deserving a bipartisan solution. I hope the subcommittee will pursue this line of thought and succeed in meeting this challenge. With these thoughts in mind, I will now proceed with the main body of my statement.

Everyone in the maritime industry is cognizant of the accelerated decline of the fleet during the last fifteen years, and even more so over the last eight years, under administration policies that spent freely on new weapons systems while making sealift a sacrificial lamb in the budget process. This short-sighted fiscal policy was much in evidence earlier this month when the U.S. Postal Service awarded the New York - Leningrad mail contract to a lower-bid foreign-flag operator. For the sake of our national security, we can only hope that this is not an example of the direction the current administration intends to take with regard to promoting the industry.

Following the example of Presidents Roosevelt and Nixon, we call upon President Bush to provide the direction and leadership desperately needed in order to meet our nation's sealift requirements. Mr. Bush gave some indication of his recognition for the need for a viable U.S.-flag fleet last

fall, when his campaign declared itself "committed to a comprehensive maritime policy with the ultimate goal of restoring the United States maritime industry in the interests of economic and national security.... While current policy emphasizes the importance of a reserve merchant fleet, it shall be incumbent upon the next administration to explore policy options which place an emphasis on the construction and maintenance of an operational merchant fleet. Without such an emphasis, the United States will face a serious deficiency in manning, construction, training and spare parts capability."

To illustrate the scenario that could result from such a deficiency, we would do well to look at what happened to Great Britain in the 1982 Falkland Islands campaign. According to the General Council of British Shipping, Britain only barely put together the necessary number of militarily useful home-flag vessels with native crews. The prognosis for future campaigns bordered on the impossible.

Grim as Britain's situation was, it was contrasted favorably to our own capability by Vice Admiral Kent J. Carroll, former commander, Military Sealift Command, in October 1982.

> The Falkland crisis should make us ask if we could be as responsive as the British given the state of our merchant marine. The British have twice the number of merchant ships that we do, although they have less than one fourth the warships. Could we turn to the U.S.-flag fleet and find the sealift we would need to mount such a force? I don't feel easy.

The same month Vice Admiral Carroll made these remarks, the Maritime Administration reported an active U.S.-flag, privately owned, deep-draft merchant fleet of 522 vessels. As of the beginning of this year, the Maritime Administration has indicated that number declin[illegible] to 387, making the sealift situation all the more perilous.

The dangerously weak state of the merchant marine, especially with regard to sealift, defies exaggeration. It has been the subject of numerous studies and reports, all agreeing in a pessimistic outlook for military sealift. More recently, the presidentially-appointed Commission on Merchant Marine and Defense, in its third report, issued last September, entitled "Findings of Fact and Conclusions," summed up the situation in language that we all should regard as a call to immediate action.

> The deteriorated condition of America's maritime industries continues to present a growing danger to the national security. In the absence of clear, decisive action to address the worsening situation, the United States cannot consider its interests or freedoms secure. There is no denying that our nation would depend heavily in a protracted war upon use of the oceans for its military defense and economic survival....
>
> The commission reaffirms its belief that the most militarily efficient, reliable and economically beneficial way to provide the majority of the military sealift requirement now and in the future is through continued reliance upon an active United States-flag merchant marine.

While many external factors have over the last two decades affected shipping worldwide, what sets the United States apart from other leading world powers is its lack of a coherent national maritime policy. The result has been a piecemeal approach to problems in the shipping sector that barely slows down the hemorrhage. The consequence of government neglect is a number of substantial threats to our maritime sovereignty that will have to be addressed immediately.

First and foremost is the current and worsening shortage of skilled manpower to build, repair and operate merchant vessels. It is unrealistic to expect that a seafarer or shipyard worker with marketable skills is going to sit idly by on the beach or by the phone on the chance that a new job may come his way. Once lost to the industry, he is lost forever. It is ridiculous to assume that our country can find, recruit, train and deploy skilled labor within the compressed schedule of a breakout during a rapid mobilization.

While it is within our government's power to reverse the decline in the manpower pool, such efforts could be thwarted by our own trade representatives in the Uruguay Round of talks under the General Agreement on Tariffs and Trade (GATT). Inclusion of maritime services under GATT would block future legislative efforts to increase our sealift capacity by making them hostage to foreign vetoes, and would compromise statutes currently on the books to support our fleet. Just as we would never permit a foreign power to dictate the design of our

fighter aircraft, we must not allow such influence over the composition of our fourth arm of defense, the merchant marine.

I would like to bring to your attention one more potential threat. As we meet today, foreign policy analysts in think tanks and agencies all over Washington are scrambling to formulate an appropriate response to the consolidation of the European Community in 1992. NATO, too, is coming under increasing strain. As we watch nations who historically have competed and warred with each other become progressively intertwined in a unified economy, it is not far-fetched to anticipate a "Euroflag" merchant fleet as well. In fact, the European Commission has proposed such a registry, to operate side by side with existing European flags, which would give member fleets full cabotage rights in all EEC countries, thus putting our fleet at a further disadvantage. To the extent that sealift strategy has presupposed the cooperation and largess of our allies in Western Europe, we need to put even greater emphasis on our ability to provide for ourselves.

The fact is that the allied fleets as we have historically known them no longer exist. European operators have joined the rush to flag out to Third World countries, such as the Bahamas, Honduras and Liberia, or have established separate "open" registries.

This presents one additional irony for U.S. planners, who have considered so-called Effective U.S. Controlled (EUSC)

vessels subject to requisition. In its first report in September 1987, the Commission on Merchant Marine and Defense noted that out of over 300 such ships, the Joint Chiefs of Staff considered only 22 dry cargo ships, 101 tankers and 11 passenger ships militarily useful. The trend line has been toward a decrease in that segment of the fleet, which the commission in September 1988 projected at 5 dry cargo, 48 tanker and zero passenger vessels by the year 2000.

Additionally, in April 1988, the Comptroller General reported to Senator Hollings that many of the EUSC vessels built into government figures are in fact not requisitionable. It rejected the Maritime Administration contention that foreign ship-owning subsidiaries of U.S. corporations are "dummy" corporations, saying that, "Even where a corporation is a wholly-owned subsidiary, it is generally regarded as a separate and distinct entity from the parent corporation." It should be noted that the rather bleak projections of the Commission on Merchant Marine and Defense explicitly exclude the General Accounting Office determination in their calculations.

The problems affecting the maritime industry and sealift capability have been documented and studied extensively. The evidence is out there for all to see. I would suggest that with the very real threats facing our country today, the time for study is over. The time for implementation of corrective measures, arising from a well thought-out maritime program, is now.

In that light, we are encouraged by the direction of the National Sealift Policy as developed by the National Defense Transportation Association (NDTA). This proposed 11-point program touches on many of the pressing needs identified by the Commission on Merchant Marine and Defense as demanding our nation's immediate attention. We are especially pleased with its emphasis on unilateral response capability, irrespective of allied and EUSC resources, expansion of U.S.-flag passenger trades for troop carrier capability, protection of the domestic fleet and shipyard mobilization base through rigorous enforcement of the Jones Act, and the application of existing maritime laws and regulations. It is a forward-looking document that constitutes a solid base for expanded policy decisions, and serves as a foundation upon which the entire government can act.

At the same time, we hasten to add that the program is short on specifics as it applies to the future vitality of the private fleet when operating outside of military functions. Clearly, a sustained demand for commercial shipping services must exist during peacetime if the merchant marine is to be able to provide vessels, manpower and overall sealift capacity during war. A multifaceted approach to supporting all maritime sectors will be necessary in order to meet America's sealift requirements.

It is our understanding that the National Sealift Policy is currently under the review of the White House and National

Security Council. While there are some other components to maritime policy, most notably commercial cargo and ships, that need to be addressed, the NDTA program is an important first step. We hope that the administration will adopt its provisions expeditiously, and proceed to devise mechanisms for its full implementation, in conjunction with the cooperative efforts of Congress and industry working together. The recent debate over the cash transfer provisions of the House foreign aid bill is a reminder of how differences of opinion can and will arise over how to formulate maritime policy. However, even opponents of its cargo preference provision never questioned the importance of sealift. We as a nation are united in our commitment to a strong merchant marine.

We also applaud efforts by you, Mr. Chairman, to take a new look at how maritime policy is formulated, and especially support your legislative proposal to create a cabinet-level position with oversight on maritime affairs. Clearly, policy decisions in the past have been made without adequate consideration of their impact on the maritime sector in general and sealift in particular. Top-down coordination of government agencies is necessary in order to meet our national sealift objectives. The Soviet Union, which has long recognized the relationship between commercial and military shipping, has an entire ministry devoted to its merchant marine, and its merchant fleet has grown substantially in recent decades. We too need advocacy at the executive level to ensure that

maritime matters, which are so central to our national security, are sufficiently represented.

Mr. Chairman, in those areas where formerly military functions have been privatized, such as underway replenishment, the merchant marine has shown itself a capable, reliable partner in our nation's defense. As EUSC vessels are called into question, U.S.-flag vessels are performing an increasing number of military functions, with crew costs and manning levels competitive with the rest of the industrialized free world. After solving some initial problems, the merchant fleet is proving itself a cost-effective argument for advocating further privatization of defense operations.

U.S. maritime unions have played a positive role in the training and maintenance of skilled crews and have attempted to deal with the critical problem of retaining sufficient manpower in an industry offering fewer and fewer job opportunities. They have in place top-flight training programs and educational facilities to equip merchant mariners with the knowledge and ability they need in a technologically advancing world. Clearly, emphasis in the future must be given to further use of the private fleet for both military and commercial purposes, and the pendulum must swing away from the mindless acquisition of mothballed reserve ships to moving vessels manned by real live skilled human beings.

The alternative is a minuscule fleet of outdated vessels, barely kept in repair by the few remaining shipyards, manned by a shrunken pool of seafarers unable to meet the surge requirements of a nation under siege. When our boys overseas look for the equipment they need to defend their lives and our freedom, it will be too late to put out "help wanted" notices. Through ample and repeated study, we have all been made well aware of the likely wartime scenario should we continue to ignore our shortfall in strategic sealift. That is why I ask the members of this subcommittee to share our sense of urgency and act toward the immediate implementation of the National Sealift Policy. I am sure that every part of the maritime industry, both management and labor, stand ready to work with you in achieving this essential objective.

Senator BREAUX. Thank you very much, Mr. Sacco, and all the members of the panel.

Mr. Stocker, suppose your 301 petition was approved and finalized, just as you asked, and the remedies were put into place. What would the condition of the U.S. shipbuilding industry be, if you got all the results you requested?

Mr. STOCKER. Senator, I am glad you asked that question, because certainly our detractors have said, you know, simply solving a problem of foreign subsidies is not going to be enough. It is a necessary condition, but not necessary and sufficient to make broad changes.

And that is why in the shipyard recovery program which we have laid before you in the past, the elimination of foreign subsidies is very high on our agenda, but it is only one of four items. The other three are composed of the second being shipyard management and labor making a commitment to focus on the production process, to improve productivity through new capital plant investment and new approaches to work organization. That is an absolutely essential feature as well. And I tried to allude to that earlier when I said we certainly have problems of our own that we need to look at and need to improve in order to emerge as a competitive force.

The third point is that given our present financial condition and you asked Mr. Creelman this earlier this morning—we believe that we need government support for commercial research and development, focusing not only on new ship designs, but also on new production improvements in the shipyards themselves. You have to remember we are going to be competing against people who have very extensive research and development institutions and organizations that are financed by their governments.

West Germany, for example, has two shipbuilding institutes. Japan has several. The Japanese program of research and development in the Ministry of Transport is very extensive. This is where they are doing their work on their high-speed cargo freighter and the use of superconductivity for marine propulsion, et cetera, et cetera. And we certainly would need a similar effort in order to be thinking about the new transportation systems that will be moving on water in the 21st century.

And the fourth element is, as I mentioned earlier when I was describing to you the problem with simply stating that we are nonproductive as opposed to our foreign competitors, I mentioned that we needed a volume of business in order to make the productivity improvements possible. We see that volume of business being generated by the sealift programs that are currently under discussion, and in using those sealift programs as the engine for change that I mentioned previously. If we get that volume of business, we think we can overcome the advantages that the others have had in place for the last 10 to 15 years in the development of their market.

Senator BREAUX. Let me interrupt the panel members. I have a vote to get. Let me get it, and I will come right back and we will finish up, because I do have some questions I want to ask of everybody.

So we will be in recess for a couple of minutes. I will be right back.

[Recess.]

Senator BREAUX. The committee will please come to order.

If our witnesses could resume their places at the witness table and everybody have a seat, we could finish up with the questions, which I think are important for the record. I apologize for the delay.

Mr. Stocker, one other question on the productivity issue which you have addressed. And you have talked about how it was unfair, I guess, to compare perhaps Japanese rates of productivity with the U.S. productivity, because they contracted out a lot out of their services, did subcontract work and what have you that you and your clients do not do.

But I guess from a shipowner's standpoint, it does not matter. He is looking at the bottom line cost of a vessel. So when you would say well, they do it differently in other countries because they subcontract a lot of work out, a ship purchaser would say I do not care why; I am just looking at the bottom line, that I can get this ship overseas a lot cheaper than I can get this ship in a U.S. yard.

Is there a response to that?

Mr. STOCKER. Well, and I have said this before, Senator, there is no doubt that when a shipowner—and I have said this over the past two or three years—a shipowner as a consumer looks at the price of a ship, he is looking at the bottom line of the invoice that is presented to him by the shipbuilder when he makes that final payment on that particular ship.

My only response to that is to say sure, he is going to get a lower price from foreign competitors for precisely the reasons that we have outlined in our 301 petition. This market, the market that the shipowner is operating in as a consumer of a capital good like a ship is—he is benefitting from the foreign subsidy practices that

have been in existence and the support practices those governments have put into place for a very long time.

And I will be very honest with you. We cannot compete with that. We cannot compete with these programs that are not just simply programs that are in place to help support their industries, but have also led to the creation of a volume of business that we cannot compete against as well.

And as I have already explained to you earlier, it is that volume of business that allows you to make the investment in capital plant and retraining and so on that achieves those kind of productivity gains that allow you as a shipbuilder to reduce your prices to the person buying the ship. And that is why we have raised the issue of these foreign practices.

Senator BREAUX. General Cassidy outlined about five different areas of recommendations. Would you care to comment on any of them?

Mr. STOCKER. I certainly would. One of the things I am astonished by, frankly, in General Cassidy's lineup of five controversial issues is that he does not or has not given additional thought to the development of a program and a plan for shipyards.

In response to your question to him about the shipbuilding industry, the General said they need to bring their Yankee ingenuity into place and become competitive. My view is is that that is not going to be enough.

One of the things that we have suffered from, as Mr. Verdon eloquently pointed out in his own testimony, is a real lack of a strategy, whether it is on the part of the operators or on the part of the builders, in terms of trying to move the maritime industry into a competitive position in the international market. And to simply say that we need to rely on our Yankee ingenuity to become competitive in the international market ignores what I consider to be almost ten years of real neglect in terms of allowing U.S. shipbuilders to: (a) develop the specialties that will be required to move into that market; and (b) to try to elevate those practices that we have identified higher on the U.S. trade agenda.

So you cannot—and I hate to disappoint him—but you cannot throw U.S. shipbuilders out into the international market and say be clever, be smart, be better than the next guy, when we do not have the tools to make it possible for us to either address the economic conditions that we face or the policy implications of those practices that we have identified in our petition.

Senator BREAUX. Of course, I think in fairness to General Cassidy, I think he also indicated some support for the 301 type of procedure as far as unfair trade practices.

Mr. STOCKER. Yes. And I would acknowledge that, Senator. On the other hand, as I pointed out to you earlier, we do have this program that has four points. And while the campaign against foreign subsidies is critical, it is only one of four.

Senator BREAUX. Mr. Verdon, we talked about a number of things that you raised—crew parity. You say you start off with what, $40 million or $50 million in the whole in comparison to your foreign——

Mr. VERDON. If it is a modern company with 20 modern vessels, that will be the number. If it happens to be one of the older compa-

nies with older vessels where the differential is about $3½ million a vessel, it could be $70 million, $80 million in the hole.

Senator BREAUX. Is that a combination of the number of crew plus the wages or what?

Mr. VERDON. That is correct. It is the number of crew and the collective bargaining agreement that the individual company has. But it is $50 million for a new fleet and about $70 million, $80 million for an older fleet on a 20—you know, if you are using 20 ships as an average size.

Senator BREAUX. ODS takes care of how much of that?

Mr. VERDON. ODS takes care of about 85 percent of your crew cost on a parity basis, and that is where the crux is.

Senator BREAUX. Do your owners have any suggestions in this area?

Mr. VERDON. Well, I think the suggestion is that we have to come up with and broaden the ODS program to allow for everybody to be on the program. Today we have only seven liner companies, and we have several who are not on the program. And that is as a result of the fact that in 1981 the administration said no new ODS contracts.

If we want to have a U.S. flag merchant marine there in time of a need, and that translates into having U.S. crews, you are going to have to recognize the fact that it is going to cost a price. And regrettably, in a budget-cutting environment in early 1980, 1981, that was one of the first things to go.

But we have to recognize that the U.S. merchant marine is a hybrid. It is not a normal commercial business making widgets. It is there for—as I said earlier, it is cloaked in a commercial coat, but it really is serving two very necessary purposes for the government.

Senator BREAUX. How important is the operational parity that you suggested; ships could go anywhere?

Mr. VERDON. Senator, I think it is very critical, and I think all of these have a weight, that every one is needed. It is similar, I think, to giving your son a baseball bat and telling him to go out and play baseball. He cannot do it without a glove and a ball. And we cannot do it without having vessel parity, crew parity, operational parity in one system.

Operational parity, just as an example, if 82 percent of our competitors have the freedom to go where they want, when they want, to follow the cargo and do it overnight, you can see the deep, deep hole we are in if, for instance, APL decides that it is better to move a ship from point A to point B, or to put it on a different line string, and it is going to take two years to get the authority to do that. By the time they get the authority to do that, the cargo will have again moved, the trade has changed, and it becomes useless.

And in a way we get criticized for being our own worst enemy in that we protest to each other, but that is as a result of having two separate systems. And we have to get everybody working under the same set of rules. Once you do that, Senator, the litigation will go away. We will have the ability to meet the competitors' operational flexibility.

And we will also have something we do not have today, and that is, we would have the ability to enter into joint ventures with all of

the American flag companies. Today, a subsidized carrier, if it wants to enter into a joint venture with a nonsubsidized carrier, i.e., Sea-Land or Crowley, has a difficult time because of the different rules and regulations and the different time constraints that you are faced with. So you see nonsubsidized carriers entering into joint ventures with foreign flag operations, because it is a lot easier to do operationally.

Senator BREAUX. You mentioned in your testimony that you are very near to an agreement for presentation to this committee representing a solution to the liner industry problems that was economically reasonable, operationally feasible, and fair to all members of the industry. We look forward to that, and I am pleased that you indicate that it is going to consider other aspects of the industry.

I think too many times when we have asked for suggestions, shipbuilders have their requirements, operators have their requirements, working members have their requirements. But it is going to take a cooperative solution; otherwise, as we have seen, nothing will ever get done.

Mr. Sacco, any comment about the suggestions of General Cassidy that struck you?

Mr. SACCO. Oh, yes. He did not know it, but while he was out of the room. we all took a vote. He can no longer retire from the Air Force.

I have worked very closely with General Cassidy, and it has been my pleasure to see a dedicated military man go out on a limb like he has done and literally carry the sealift policy ball by himself. He went to every person in the administration that he knows or could think of in order to sell the sealift policy.

General Cassidy mentioned sealift and how important it is to our national security. Mr. Chairman, that ship that General Cassidy was talking about that was crewed during the Panamanian crisis was the Bellatrex, and our crews were on board.

We got a notice from MSC that they wanted that ship crewed and loaded within 96 hours. We did it in 72 hours. The reason we were able to do it was because we had manpower available at that time in that port.

In my opinion, if we had a crisis and if the RRF ships were to be broken out all at one time, there is no way that the civilian sector or the military sector could man those vessels. We have a crisis on our hands. Everybody has been talking about this problem. But, Senator, unless the President of the United States himself gets involved, it is going to be very difficult for us to do anything to change it.

We, at the Lunberg School, continue to train young man to work in the maritime industry. We continue to upgrade them. But, Mr. Chairman, if there are no jobs for these people when they upgrade, they will leave the industry as has been the case with the shipyards. The shortages of skilled labor, I can only imagine, are tremendous in the shipyards. We will not get those guys back. They are gone. In order for us to keep a strong America, we must have a good, strong U.S.-flag fleet.

Senator BREAUX. Where do the men come from that would do the Ready Reserve Fleet ships that were taken out?

Mr. SACCO. From any one of our ports throughout the United States where we have a union hall and men are registered to work. We also have a Manpower Control Center in Maryland at Piney Point where we know 24 hours a day every day how many men we have registered in the various ports throughout the United States. Should we have a crisis like that, Manpower will alert that port, and if that port cannot supply a crew, then it goes to another port.

For example: If we could not supply men out of New Orleans, we would go to Mobile. If we could not obtain them from Mobile, we would go to Houston. If we could not obtain them from Houston, we would go to Manpower headquarters at Piney Point and fly them in from New York, California, Chicago, Seattle, or wherever they were registered.

But, we would not have enough manpower, if we have any type of serious crisis, to meet sealift needs. We just do not have the people.

Senator BREAUX. Well, I want to thank all three of you. I think today's first panel, together with this panel, really set the stage for what we need to do.

Mr. SACCO. Mr. Chairman, if I may, before I get off the deck. We talked about cargoes, cargoes for U.S. flag ships. Mr. Chairman, we already have laws on the books that set aside a certain percentage of cargo for American flag ships. Do you know that some of our operators have to go into federal court to sue federal agencies in order to get the cargo that they are entitled to?

Senator BREAUX. You pointed out the question about the Postal Service, too.

Mr. SACCO. You know what, God protect the national security of this country. The U.S. Government gave a mail contract to a foreign flag operator from New York to Leningrad, Russia. I hope this is not a sign of what the policies of this Administation are going to be toward the U.S. flag merchant marine.

Senator, before I close I would just like to share with you some remarks that Senator Hollings made at a reception in New York where he was being honored.

He said, we react whenever there is a crisis. We have got to plan. We must sit down amongst ourselves and work out formulas that will help this country. And then he told a story about a little girl who got lost in a blizzard on a farm in Iowa. Well, when the parents found that their child was lost in that snowstorm, they were frantic. They called their neighbors. They called the townspeople. Everybody came to the farm, and everybody spread out and started looking for this little girl who was lost in the snowstorm.

About nine hours later they found the body of the little girl about 40 yards from the house. The mother of this little girl said, "Oh, my God, had we all got together before we went out searching, and held hands, and formed a circle, and worked our way in toward the house, we might have saved my daughter's life."

What I am saying to you, Mr. Chairman, is do you not think it is time that we joined hands and started working together toward a strong U.S. flag fleet and a strong sealift policy before something drastic happens to us, before it is too late?

Senator BREAUX. Very well said. And it is obvious that the crisis has been around for such a long time, it is almost difficult to call it

a crisis. It is a continuing dilemma of which the outcome is very, very certain unless something is done.

We will renew our commitment. I think our ranking minority member, Senator Lott, certainly understands it, and he and I will work very closely and look forward to receiving some of your suggestions as a report, and working with all segments of the industry; because it is not going to be a solution that is going to address only one aspect of the industry. Otherwise it is not going to work. It is going to have to touch everybody.

So with that, we thank you for being here. This will conclude this hearing, and this committee will stand adjourned.

[Whereupon, at 12:08 p.m., the subcommittee was adjourned.]

[The following information was subsequently received for the record:]

STATEMENT OF SEA CONTAINERS AMERICA INC.

Allow for the negotiation and establishment of commercial "master leases" by container companies with MSC, MTMC, and other commands—these lease relationships could follow existing bidding procedures or could use as a model the British MOD container leasing arrangements which provide a base lease fleet of containers, but more importantly, "right of first call" for all containers located in CONUS depots during a national mobilization.

If DOD adopted the above concept, it could require container companies to file with them on a regular basis commercial information regarding depot stocks which would be held by The Pentagon on a confidential basis, so that with a push of a button, the strategic sealift container support base could determine what stocks are available for instant use.

Creation of a ready reserve container stockpile whereby flatracks and other military useful units are stored in key port depots—DOD could negotiate low per diem rentals and even allow restricted domestic use of these units to MTMC or other transport commands.

Ocean carriers operating with ODS or under the Procure and Charter Program, could be allocated a subsidy for unique container leases in order to have this equipment in their system at the time of mobilization—MTMC and MSC could require military personnel to observe and have hands-on exercises with this leased equipment in a commercial setting.

DOD must learn from our Allies that their cooperation with civilian transportation entities—railroads, ocean carriers, truckers, and container leasing companies—has brought an awareness for the need of intermodal skills and fast efficient access of container hardware to the military transport commands. The recent Falklands supply and resupply deployment system demonstrated beyond doubt that a full container "pipeline" must exist to rapidly outload stored stocks in a commercially standard form to the military requirement area.

The Coast Guard must end its current dual standard of container inspection that is leading to substantial unnecessary cost burdens to MSC and MTMC.

Procurement practices must shift from a mentality of "it's only a steel box, so therefore make it a Small Business setaside" to a balanced, coherent policy that will encourage domestic and NATO Allies container production.

DOD commands should not place total reliance on what U.S. flag carriers tell them regarding the appropriateness or availability of certain container equipment.

DOD must involve container companies in updating many of their outdated specifications and seek commercial guidance before embarking on huge acquisitions of specially designed equipment that may already exist in a more viable form in the private shipping sector.

DOD must adopt an intermodal philosophy across transportation commands that are now part of TRANSCOM so that containers passing through each command element are not victims of jurisdictional or transport responsibility disputes.

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